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38 STUDIOS ANNOUNCES PROVIDENCE, RI AS ITS NEW HEADQUARTERS LOCATION

Entertainment company selects office space in downtown Providence to contribute to the ongoing revitalization efforts in Downcity

MAYNARD, MA – Sept. 23, 2010 – 38 Studios announces it has executed a lease for an office building in downtown Providence and will relocate the company's headquarters to One Empire Plaza. 38 Studios has chosen this unique location to initiate and create a Rhode Island video game cluster.

"The staff at 38 Studios is incredibly excited about our relocation to Providence and we expect to be the first of many relocating knowledge-economy companies that will take advantage of the opportunities Rhode Island provides," said Jen MacLean, Chief Executive Officer of 38 Studios. "Providence has some of the best students in the nation, a vibrant arts community, and a dynamic urban environment with easy access to public transportation. We look forward to working closely with the Rhode Island Economic Development Corporation and local businesses in the months ahead to plan how our company's growth can also benefit the state of Rhode Island."

"I commend 38 Studios for quickly securing a location for the company's new headquarters in Rhode Island," said Governor Donald L. Carcieri. "38 Studios presents Rhode Island with a tremendous economic development opportunity. This investment creates 450 high-paying jobs, provides job opportunities for our college graduates in a fast growing industry, and will attract other interactive and entertainment companies to Rhode Island. Located in the heart of the capital city and surrounded by our universities and strong arts community, I am confident that 38 Studios will serve as a touchstone for growth in the interactive entertainment and digital media industry."

The Executive Director of the RIEDC, Keith Stokes, commented, "38 Studios' announcement of their new headquarters location is a major milestone in the company's relocation plans to create 450 high-wage, high-skilled jobs in Rhode Island."

The new site, based in downtown Providence, is located in the arts and entertainment district, a central location that proved attractive to 38 Studios due to its vibrant mix of office buildings, restaurants and entertainment venues and its proximity to multiple universities rich with talent such as the University of Rhode Island, Johnson & Wales University, Brown University, and the Rhode Island School of Design (RISD).

Said Umberto Crenca, Artistic Director, AS220, "I am very excited about the commitment of 38 Studios to locate in downtown Providence. The clustering of creative and digital industries so close to internationally recognized schools such as RISD, Brown, JWU, and URI can be the trigger that propels Providence into its future. The city's diversity, historic architecture and strong arts and culture have helped it to create a high quality of life that is attractive to creative types. Richard Florida's predictions are coming to pass: Creative people are drawn to interesting, dynamic and diverse communities; creative industries are drawn to talent and a new economic model is born."

One Empire Plaza is a six-story 104,000-square-foot building located diagonally across Empire Street from Trinity Repertory Company. The parcel contains a pedestrian plaza and is bordered by Empire, Washington and Walnut Streets, as well as the pedestrian portion of Westminster Street.

"The new location of 38 Studios will be a significant economic boost to downtown, the City and the State," added Daniel Baudouin, Executive Director, The Providence Foundation. "In addition to the high paying jobs and disposable income that 38 Studios will produce, their downtown location should result in the development of a strong, growing cluster of businesses in digital media and design, two potential targets of growth for downtown and the State."

ABOUT 38 STUDIOS:

38 Studios, LLC, an entertainment and IP creation company founded in 2006 by Curt Schilling, is developing an original fantasy IP driven by the creative and artistic visions of pop-culture icons R. A. Salvatore and Todd McFarlane. Entertainment products will include a massively immersive Online Entertainment Experience™ that transcends the traditional MMOG genre, novels, comics, toys, console games, movies, TV, and more. For more information, visit www.38studios.com <<http://www.38studios.com>> .

Publication: The Providence Journal; Date: May 15, 2012; Section: Rhode Island; Page: A1

PROVIDENCE

38 Studios, Chafee meet on loan plan

Governor says he wants to make sure Curt Schilling's videogame company is solvent as it makes payments

By KATE BRAMSON JOURNAL STAFF WRITER

PROVIDENCE — Governor Chafee has met with 38 Studios executives and officials from the state Economic Development Corporation in recent days, and said they are working at “protecting the taxpayer dollars.”

Chafee said he's checking “in on all the financials” with regard to former Red Sox pitcher Curt Schilling's videogame company, which was lured to Rhode Island in April 2011 from Massachusetts with a controversial \$75-million loan guarantee from the Rhode Island Economic Development Corporation.

The governor has not discussed details of the meetings with 38 Studios executives in multiple interviews with The Journal since last Thursday, but on Monday afternoon at the State House, he said what's at stake is “keeping 38 Studios solvent.”

According to the deal with the state, the EDC issued \$75-million in bonds to help 38 Studios move to Rhode Island, with the idea of creating a cluster of video-game companies in the state. The company is required to pay back principal and interest on those bonds.

If the company's payments fall short, the state's taxpayers would have to cover the payments. The EDC, through the governor, must ask the General Assembly for money to cover any missed payments.

State Senate President M. Teresa Paiva Weed and House Speaker Gordon Fox have declined comment.

The EDC approved the loan guarantee during former Gov. Donald Carcieri's tenure, a decision that drew strong criticism from Chafee as he was seeking office in 2010. He has since said that it's important to work with the company and make sure it succeeds.

Reached on Sunday, the governor said “it has been a weekend of work on this subject.”

Also, he said, there is a “tight time frame we're working under.”

“We're doing everything possible, like I would for any Rhode Island company,” he said on Monday.

At 38 Studios on Monday morning, the company was open for business and employees were reporting for work at One Empire Plaza. The company has not returned a request for comment.

Company executives turned to the City of Providence either Thursday or Friday seeking some assistance, said James S. Bennett, the city's economic development director — “letting us know, obviously, there are 200 jobs in the city, and [seeking] any help.”

But the city has no role in monitoring the company or its financial status, Bennett said. He called EDC Executive Director Keith W. Stokes, who Bennett said was already working on the matter.

By last November, 38 Studios had received its final payment due under the loan guarantee, which brought the total cash amount from Rhode Island to Schilling's company to \$47.4 million.

Although the loan guarantee required the EDC to issue bonds worth \$75 million, the company did not receive that total dollar amount because more than \$20 million of the bond proceeds were put into reserve funds to pay the first two years of interest. Some of the money also covered the costs of issuing the bonds.

Interest-only payments due last year and this year have been paid out of one of those reserve funds, EDC officials have said at each deadline. On Friday, Stokes said the May 1 payment has been made. He declined further comment about the company.

38 Studios is required to begin making payments on the bonds on May 1, 2013, and then each Nov. 1 and May 1 after that until Nov. 1, 2020. The company will owe principal and interest payments totaling \$12.75 million in 2013.

In all, including the payments made out of the reserve fund, it will cost a total of \$112.6 million to repay the bonds. kbramson@providencejournal.com

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Curt Schilling's 38 Studios lays off entire staff

By Todd Wallack, Mark Arsenault and Hiawatha Bray

Globe Staff / May 25, 2012

Curt Schilling's troubled 38 Studios laid off its entire staff in Rhode Island and Maryland on Thursday in a stunning turn of events for the former Red Sox pitcher's ambitious gambit to build a video game franchise off the back of a winning baseball career.

The decision comes less than two weeks after 38 Studios' financial woes surfaced and deep cracks began appearing in the six-year-old company. It was lured from Maynard to Rhode Island on the promise of a \$75 million loan guarantee from a state hoping Schilling's vision could bring high-paying jobs.

"I'm stunned, and I'm heartbroken," said R.A. Salvatore, a Leominster fantasy author who was a consultant to 38 Studios and whose son worked at the company. "This is one of the best teams I've ever seen assembled. They were doing amazing work."

The company, which employed more than 400 full-time workers and contractors, moved to Providence in April 2011 and by February of this year had released its first game, Kingdoms of Amalur: Reckoning.

But 38 Studios missed its May 1 payment of \$1.1 million to Rhode Island and did not have enough cash to meet its payroll on May 15. To stay afloat, it asked Rhode Island for more money, applying for \$8.4 million in film-tax credits, which it could then sell to other companies seeking to lower their tax bills.

The company did not inform Rhode Island Governor Lincoln Chafee about the layoff. Chafee said the state has not been able to confirm how many workers were let go and has struggled to get other critical details since 38 Studios ran into financial trouble.

Still, Chafee said he is open to working with the company to help find ways for it to survive.

"I have not given up," he said. "But I am also a realist. What we've learned from [industry] experts is grim news. Very, very grim."

Chafee said he believes 38 Studios executives have tried hard to find additional investors, such as venture capitalists, but have not had any luck so far. Schilling has publicly said he already put \$30 million into the company, and he told state officials he did not have any more money to invest, despite a lucrative baseball career during which he earned \$114 million.

"He says he's all in," Chafee said. "Tapped out."

Schilling could not be reached for comment.

Rhode Island has already provided the company with about \$49 million of the \$75 million loan. Chafee said he continues to oppose giving the company tax credits because of concerns it is likely to fail anyway and cost taxpayers even more. He added that the value of the intellectual property and other assets probably would be minimal, reducing the amount of money the state could later recoup.

The original loan package was approved under Chafee's predecessor, Republican Governor Donald Carcieri; as a gubernatorial candidate, Chafee had criticized the deal with Schilling. The fallout from the loan has already led to the resignation of two officials from the Rhode Island economic development agency.

"If we could get some confidence that any further investment was going to lead somewhere profitable, I would

be in favor of that," said Chafee, a former Republican member of the US Senate, now a political independent. "That has just not been the case."

Pressed at a news conference Thursday about how the company could have failed so quickly, and whether the state had not provided the proper oversight for its investment, Chafee said the company had anticipated better sales from its first game.

"The game failed," he said. "That was integral to the success of the company."

Kingdoms of Amalur sold an estimated 1.2 million units, which Chafee said is less than halfway to the break-even point, according to experts the state has consulted.

Schilling became a legend with Red Sox Nation in 2004 after pitching through an injury complete with a bloody sock during the American League Championship against the New York Yankees. He traded on his star power to build his company, which he renamed 38 Studios LLC, a reference to his Sox jersey number. Schilling retired from baseball in 2009.

The right-handed pitcher has said little to reporters, but has repeatedly taken to Facebook and Twitter to try to rally employees and raise hopes for the company's future. On Thursday, he tried to rebut Chafee's repeated claims that the company's first game was a flop. In a Facebook post, Schilling insisted the game "outperformed" the expectations of its publisher, Electronic Arts.

Michael Pachter, a game industry analyst at Wedbush Securities in Los Angeles, said he was stunned by the failure of 38 Studios. He said Kingdoms of Amalur sold well and should have provided enough revenue to help the company stay afloat until its major project, Copernicus, was ready for release.

Pachter said the company must have lost control of expenses. "Clearly they spent more than they took in," he said. "That's just poor planning. What were they thinking?"

But there was no guarantee that Copernicus, an elaborate online role-playing game set to be released in 2013, would be a big hit. Such "massively multiplayer online" games are notoriously costly and difficult to develop. Schilling estimated he might need more than \$100 million to complete the game.

In addition to 307 workers in Rhode Island, 38 Studios had 106 employees in Maryland, where it bought the video game company Big Huge Games in 2009.

"It's an incredible tragedy," said Brett Close, a former 38 Studios chief executive who now works for Frog Design in Austin, Texas. The company's trouble is a "testament to how difficult it is to create that type of product they were trying to build."

Video game experts say that 38 Studios could try to find a buyer or investor to salvage the company and remain in operation, but that scenario is unlikely.

"The consensus seems to be that it's dead," said Hank Howie, chief executive of Beach Cooler Games, a mobile game start-up in Boston.

Howie said part of the problem is that the company spent far too long working on Copernicus, in part because 38 Studios may have lacked enough experienced managers. He said the game should have taken the company no longer than three to four years, since it didn't have unlimited funding.

"There are clearly some major issues," Howie said. "You have to ship."

Michael B. Farrell of the Globe staff contributed to this report. Todd Wallack can be reached at twallack@globe.com. Mark Arsenault can be reached at marsenault@globe.com.

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The 38 Studios management team comes from top-level positions at industry-leading companies including Electronic Arts, Crytek, Comcast, and AOL. With their years of experience and impressive leadership skills, we are primed to deliver the premiere Online Entertainment Experience™. Click on the photos below for complete biographies.

CHRISTINA ALEJANDRE

ALEX BERTIE

SEAN DUNN

JON LAFF

JENNIFER MACLEAN

BILL MROCHEK

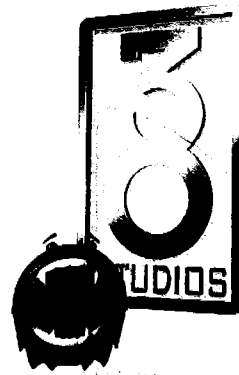
GLEN PRYER

JASON ROBERTS

BILL THOMAS

RICK WESTER

GAVIAN WHISHAW



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A failure could leave taxpayers on the hook

R.I. has moral obligation to pay bondholders if 38 Studios cannot

By **ANDY SMITH JOURNAL STAFF WRITER**

If 38 Studios, Curt Schilling's videogame company, does not make the payments on its bond obligations, Rhode Island taxpayers could be forced to come up with as much as \$102 million over the next eight years.

The sum includes the principal plus interest payments on the \$75 million in bonds issued in November 2010, by the state's Economic Development Corporation.

Under the legislation that authorized the EDC to issue the bonds, each year the executive director is required to notify the governor of any shortfall should 38 Studios not make its payments. The governor would then request an appropriation from the General Assembly.

The EDC issued \$75 million in bonds, which were sold to private investors in November 2011. Interest rates on the bonds ranged from 6 to 7.75 percent, depending on when they matured.

According to the most recent figures from the EDC, 38 Studios has received \$49.5 million from the bond proceeds.

Some of the remaining money, \$23.4 million, went into two reserve funds to cover the first three years of payments, if necessary.

(Other funds went toward the costs of issuing the bonds, such as payments to bond underwriters and attorneys.)

One reserve fund, the capitalized interest account, contained \$10.6 million. The other, the capital reserve fund, has \$12.75 million, an amount equal to the maximum amount of principal and interest 38 Studios would have to pay in any one year.

Interest-only payments due in 2011 have been paid from the capitalized interest account. In 2011, that amount came to \$5.29 million. A similar amount for interest payments is scheduled to be paid in 2012.

The first payment from 38 Studios itself is due on May 1, 2013.

The company will then be responsible for making payments each Nov. 1 and May 1 until Nov. 1, 2020, totaling about \$12.75 million per year.

According to a fact sheet issued Wednesday by the EDC, if the capital reserve account is used for 38 Studios's 2013 payment, it would reduce the outstanding principal on the bonds from \$75 million to \$67,600,000.

After the \$75 million in bonds were sold in 2010, the total amount in principal and interest payments to pay off the bonds was \$112.6 million. Under the repayment plan, that total will be reduced by the \$10.6 million in the capitalized interest account through the end of 2012. The remaining \$102 million could be reduced further by the \$12.75 million in the capital reserve fund.

The EDC bonds issued for 38 Studios are revenue bonds, meaning they are supposed to be backed by the revenues from 38 Studios. The state has what is called a moral obligation to pay.

The General Assembly is not legally obligated to appropriate the money, but bond rating agencies that analyzed the 38 Studios bond issue said the state has historically honored its moral obligation bonds.
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Keith Stokes, left, executive director of the Economic Development Corporation, and Governor Chafee Wednesday.

THE BOND BUYER

THE DAILY NEWSPAPER OF PUBLIC FINANCE

Schilling's 38 Studios in a Bloody Mess, With R.I. Investors on the Hook

Thursday, May 17, 2012

By Paul Burton

Curt Schilling once pitched with a bloody sock, endearing him to New England baseball fans. But his video game firm is in a bloody mess, leaving Rhode Island taxpayers and bondholders exposed.

Two weeks ago Schilling's company, 38 Studios LLC, missed a \$1.125 million payment that was part of a \$75 million loan guarantee the state issued late in 2010 to entice Schilling to move his firm from Maynard, Mass., to downtown Providence.

The Rhode Island Economic Development Corp. board of directors settled nothing during Wednesday's emergency session to discuss the problem. Schilling and Gov. Lincoln Chafee attended the closed meeting. Schilling, who reportedly asked for additional state help, left hurriedly without comment. The agency said little afterward, although later in the day, executive director Keith Stokes resigned.

Stokes, whose tenure had predated Chafee's election as governor, had championed the deal along with former Gov. Donald Carcieri.

A statement the EDC board released through Chafee's office on Wednesday said the directors met with 38 Studios representatives "as to the company's confidential financial status and projections."

"Members of the board asked many probing questions of the company," the statement added. The board discussed the matter but did not vote. "The company still has the option to cure the existing default by paying the \$1,125,000 guaranty fee that is past due. In the meantime, we will continue to talk with 38 Studios and develop additional information."

The board will resume the meeting at its regularly scheduled session on Monday. "The members of the board may not discuss the confidential information received and discussed today," it said.

Representatives of 38 Studios did not return messages seeking comment.

The May 1 payment, according to the bond sale's official statement, is an "annual guaranty fee" equal to 1.5% of the average amount of outstanding bonds.

The EDC in November 2010 sold the bonds to private investors in three series: \$42.5 million at 7.75% and \$23.7 million at 6%, both term bonds, and \$8.9 million of serials with interest rates ranging from 6% to 7.75%. According to bond documents, maturity dates ranged from 2015 to 2020.

WPRI.com in Providence projects that the total cost of paying off the bonds could reach \$112.6 million. It also said the company has already received \$49.8 million, or two-thirds, of the loan amount.

The EDC issued the loan as part of a \$125 million job-creation guaranty program. The company promised to create 450 jobs. Beginning in 2013, 38 Studios must pay bondholders from its game sales. Assured Guaranty Municipal Corp. is the bond insurer, according to the official statement.

Schilling, who helped the Boston Red Sox win two World Series titles, including one while pitching on a badly injured ankle, founded the company in 2006. It released its first game, "Kingdoms of Amalur: Reckoning," in

February through Electronic Arts Inc. The loan in question is underwriting "Project Copernicus," which the company has yet to release.

While campaigning for governor in 2010, Chafee criticized the deal as overly generous and having too narrow a business sector. "You know, back then it was so much money directed at one area without as much as an RFP," Chafee said Tuesday night in East Providence.

Accepting Stokes' resignation, Chafee said Thursday: "I thank Keith for his service to Rhode Island, not only at the helm of the EDC, but also as a former board member of that agency and as the long-time executive director of the Newport County Chamber of Commerce."

The Providence Journal reported that Chafee has asked Colin Kane, unpaid chairman of the Route 195 Redevelopment District Commission, to succeed Stokes.

Moody's Investors Service cited the risky nature of new companies in the sector when it issued its A2 rating for the bonds, three notches lower than the state's Aa2 rating at the time, before the sale. "Given the development-stage nature of the company, loan payments from 38 Studios have inherently more risk than other revenue streams that have established track records and predictability," Moody's said.

S&P rated the debt A.



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38 STUDIOS

Governor not shy about shuffling the deck at EDC

Four new appointments have been made since \$75 million loan was approved in 2010

By ANDY SMITH JOURNAL STAFF WRITER

The board of directors of the Rhode Island Economic Development Corporation, which met Wednesday to consider the state's financial agreement with 38 Studios, Curt Schilling's videogame company, is not the same body that approved the plan in 2010.

Since then, Governor Chafee, an outspoken opponent of the plan that lured 38 Studios from Massachusetts to Rhode Island with a \$75 million loan guarantee, has replaced former Governor Carcieri, who strongly supported the idea, as the board's chairman.

Chafee also appointed four new members of the 13-person board. They are Helena B. Foulkes, executive vice-president at CVS Caremark Corp; Jack K. Templin, who leads ThoughtCap, which specializes in online business strategy, and is a partner in business startup organization Betaspring; Providence developer Stanley Weiss; and Jerauld C. Adams, an environmental engineer who owns industrial mill buildings and whose space he rents out to companies and art studios.

The current members of the EDC board who voted in favor of the 38 Studios plan in 2010 are Daniel Sullivan, president and CEO of Collette Vacations, Inc.; J.L. "Lynn" Singleton, president of the Providence Performing Arts Center; George Nee, president of the AFL-CIO of Rhode Island; and Stephen Lane, president of Ximedica, Inc.

Karl Wadensten, president of VIBCO, was the lone dissenting vote on the 38 Studios loan guarantee.

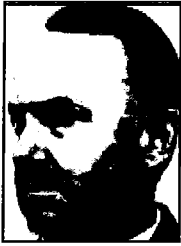
Cheryl Watkins Snead, president and CEO of Banneker Industries; Dr. Timothy J. Babineau, president and CEO of Rhode Island Hospital and Miriam Hospital; and David Dooley, president of the University of Rhode Island, were absent for the 2010 vote. Snead, Templin and Singleton were absent when the EDC board met to discuss 38 Studios Wednesday.

Former board members, all of whom voted in favor of the 38 Studios plan, are Alfred J. Verrecchia, chairman of the board of Hasbro, Inc.; Shivan Subramaniam, chairman and CEO of FM Global; Paul J. Choquette Jr., vice-chairman of Gilbane Inc.; and Donna C. Cupelo, regional president, New England Verizon Communications. asmith@providencejournal.com

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Adams



Babineau



Dooley



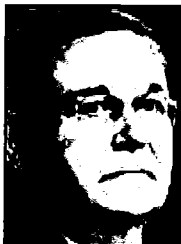
Foulkes



Lane



Nee



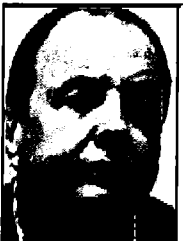
Singleton



Sullivan Jr.



Templin



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Watkins Snead



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Election 2012**Giffords aide elected**

Democrat Ron Barber has won a special election in Arizona.
The former Giffords aide was seriously injured in the same

Rhode Island » News » Nesi's Notes

Moody's told RI will pay off 38 Studios bonds; Foulkes resigns

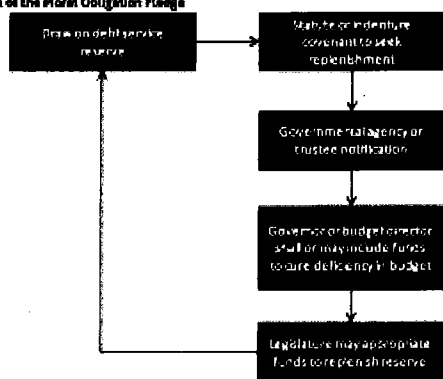
WPRI.COM

Ted Nesi

Updated: May 24, 2012 3:30 PM

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FIGURE 1
Mechanics of the Moral Obligation Pledge



Governor Chafee, Treasurer Gina Raimondo and the state legislature's top two Democrats have promised Moody's Investors Service that state taxpayers will bail out investors who purchased bonds to finance 38 Studios, the rating agency disclosed Thursday.

"Gov. Chafee, Treasurer Raimondo, Senate President Teresa Paiva-Weed and House Speaker Gordon Fox have recently expressed to us directly their support for the moral obligation commitment based on the state's credit," Moody's analyst Marcia Van Wagner said in a research note.

Separately, Helen Foulkes announced her resignation as vice chair of the R.I. Economic Development Corporation's board. Foulkes, a well-respected executive vice president at CVS Caremark, was put on the board by Chafee after she served on his transition team.

"I have discussed with the governor his plans for the board at the EDC, and I think it is best at this time I resign," Foulkes said Thursday afternoon in a statement distributed by CVS. "I wish him good luck in this very difficult challenge." Foulkes declined a request for an interview.

Foulkes' resignation is another blow to the reeling EDC, which lost its executive director last week when Keith Stokes, the architect and chief cheerleader for the 38 Studios deal, resigned after the company's financial troubles emerged. William Parsons is serving as its interim leader for now.

The EDC sold "moral obligation bonds" in 2010 to finance 38 Studios. "While they are endeavoring to resolve the situation with Studio 38 [sic] so as to avoid the need for further state support, if it is necessary to pay the bonds they will ensure that the state's moral obligation pledge is fulfilled," Van Wagner continued.

Moral obligation bonds are different from the more familiar general obligation bonds because with the former a state only pledges to ask lawmakers to appropriate taxpayer money to pay bondholders, while with the latter the state promises to pay. Rhode Island "has historically lived up to its moral obligation pledge, and we expect would do so in this case," Van Wagner said.

The EDC borrowed \$30 million in 1993 on behalf of biopharmaceutical company Alpha Beta Technologies, and the state paid off bondholders in full after Alpha Beta defaulted in 1999, partly by selling off a facility now used by Alexion Pharmaceuticals, Van Wagner noted.

The state also stepped in after defaults by the Fairmont Foundry and a project financed by the R.I. Industrial Recreational Building Authority, but in 2005 Governor Carcieri declined to seek money to deal with a bad real-estate investment made by the state pension guaranteed by EDC, Van Wagner said.

Under the EDC's 2010 agreement with 38 Studios, the company promised to use revenue from its games to pay off the \$75 million in EDC bonds, plus interest, by 2020. The total bill for principal and interest is \$112.6 million, though \$23.4 million was set aside from the bond proceeds in case the company couldn't pay.

Moral obligation bonds are commonly "used to support debt issued for essential public purposes, such as public hospitals, universities, housing projects, or schools," although they are sometimes issued for economic-development projects such as the 38 Studios relocation deal, Van Wagner.

If 38 Studios defaults, Chafee will be forced to ask lawmakers for money to pay bondholders during next year's legislative session, according to Moody's. The bondholders are supposed to receive interest payments each May 1 and principal-plus-interest payments each Nov. 1 starting next year. The initial payments are interest-only and are being paid for with proceeds from the original bond sale.

"Once the appropriation request is submitted [by the governor] to the legislature, the state's legal obligation has been met and the legislature may decide not to appropriate the funds," Van Wagner explained. Some analysts have suggested the General Assembly should consider defaulting on the bonds altogether.

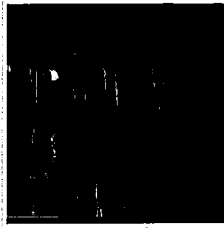
More coverage of the 38 Studios crisis:

- Two other 38 Studios subsidiaries also registered in Del., not RI (May 24)
- Schilling links to leaked 'Copernicus' art – '38 isn't dead yet' (May 24)
- Schilling holds onto job as ESPN analyst amid 38 Studios woes (May 24)
- As Delaware firm, 38 Studios may be ineligible for RI tax credits (May 23)
- The Globe's Kirsner lays out the likely endgames for 38 Studios (May 23)
- 38 Studios loses CEO and high-profile VP, LinkedIn suggests (May 23)
- Seven of EDC's current directors voted to OK 38 Studios deal (May 23)

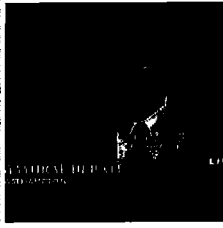
(graphic: Moody's Investors Service)

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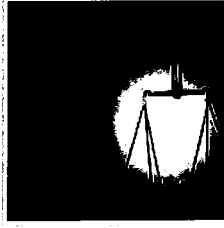
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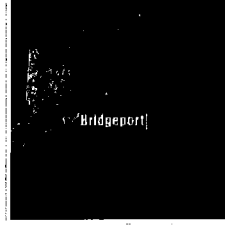
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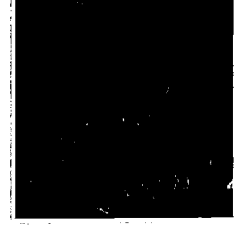
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38 STUDIOS | CHAIRMAN SPEAKS OUT

Schilling blames state for company's problems

Says Chafee, EDC officials reneged on tax-credit deal needed to keep firm afloat; states governor's comments scared off investors

By MIKE STANTON and ANDY SMITH JOURNAL STAFF WRITERS

PROVIDENCE — Curt Schilling sits in a glass-walled conference room in the video-game company that he built. The former Boston Red Sox pitching star is gaunt, unshaven and wearing a wrinkled 38 Studios T-shirt and green camouflage shorts.

He is not sleeping and has lost 33 pounds in the past 45 days, which he calls a “surreal” stretch that has seen 38 Studios — the company that he and Rhode Island have bankrolled to the tune of more than \$100 million — brought to the brink of financial ruin.

His controversial partnership with the State of Rhode Island, forged with \$75 million in taxpayer-guaranteed bonds two years ago, is hanging by a thread, in large part, he says, because of broken promises by the state and damaging public comments by Governor Chafee regarding 38 Studios' finances.

If 38 Studios fails, Rhode Island taxpayers will be liable to repay more than \$100 million. Also, Schilling says, he stands to lose \$50 million of the fortune he earned as a likely Hall of Fame baseball pitcher and committed to the venture — “everything I have.”

In exclusive interviews with The Providence Journal over Memorial Day weekend as he struggled to save his **Blames state for problems** company, Schilling broke his silence, defending his beleaguered company and denying that he sought a government “bailout.”

Schilling, the founder and chairman, says state economic-development officials reneged on a deal to approve film tax credits to which 38 Studios is legally entitled, and to allow the company to defer a \$1.12-million payment due to the state on May 1 so that 38 Studios could meet its May 15 payroll.

Schilling also criticized Chafee's “devastating” public remarks about 38 Studios' financial health, which he says scared off private investors.

Within 72 hours of Chafee's May 14 statement that the state was trying to keep 38 Studios “solvent,” Schilling says, a video-game publisher pulled out of a \$35-million deal to finance a sequel to “Kingdoms of Amalur: Reckoning,” the fantasy game that 38 Studios released in February.

Chafee said Monday night that he was trying to strike a balance between providing information to the taxpayers and not jeopardizing 38 Studios. As a candidate in 2010, Chafee opposed the state's deal with 38 Studios but said he would be the company's biggest cheerleader once it was in place when he took office in 2011.

On Thursday, 38 Studios was forced to lay off its 286 workers in downtown Providence and 100 in Maryland.

“The governor is not operating in the best interest of the company by any stretch, or the taxpayers, or the state,” says Schilling, who invited two Journal reporters and a photographer into the usually off-limits offices at One Empire Plaza, in downtown Providence. “We're trying to save this company and we're working 24/7. The public commentary has been as big a piece of what's happening to us as anything out there.”

Chafee says he wants to do whatever he reasonably can do to help, but that he's opposed to throwing "good money after bad" or allowing 38 Studios to receive film tax credits after receiving \$47 million in state bond money.

Responds Schilling: "That money is going into the hands, wallets, mouths of families who live in Rhode Island — right back into the system. ... We're not trying to take advantage of the taxpayers. We're trying to be a successful business in the State of Rhode Island that helps the State of Rhode Island get out of the doldrums that we are in."

Furthermore, Schilling says, all of the money he received from the state and all of his own money that he invested has gone into the company, much of it into the Rhode Island economy. According to 38 Studios, 182 of its Providence-based employees live in Rhode Island, earning an average salary of \$86,000.

"To be clear, I've never taken a penny out of this company," says Schilling. "If this company fails, I will be financially devastated; and so will other people."

Schilling says that talks continue with potential investors, who might be willing to step in if the state agrees to yield its first position on 38 Studios' collateral to a private investor.

Is 38 Studios finished?

"I don't know," says Schilling. "I pray that it's not. We're doing everything we can do to make that not be the case."

Jonathan Savage, a business lawyer who is representing Chafee, says that he is in daily discussions with 38 Studios and with potential private investors. He says that he believes Chafee was merely stating the obvious when he commented publicly on the company's troubled finances; the governor's remarks haven't proven damaging in Savage's talks with private investors. He is not aware of any potential deals falling through but says those publishers would be welcomed back at the negotiating table.

"It's a fragile situation," Savage said Monday night. "The governor has made it clear that he wants no new taxpayer money spent, but he has also encouraged me to forge ahead to find fresh private capital."

Savage said the state is willing to yield first position to 38 Studio's assets — its intellectual property — to attract a private investor.

"The state is not going to be a barrier," he said.

The current crisis began in mid-April, when Schilling and 38 Studios executives met with Chafee and House Speaker Gordon Fox to discuss a cash crunch at the company.

Schilling attributes the crunch to the normal growing pains of an "early-stage startup" company. Disputing Chafee's assessment, Schilling says that "Kingdoms of Amalur: Reckoning" had enjoyed a successful launch in February, selling more than 1 million copies in its first 90 days and exceeding the projections of its publisher, Electronic Arts.

Schilling says 38 Studios hasn't seen any money from "Reckoning's" sales, nor did it expect to: that money was committed to EA, which had paid 38 Studios an up-front publishing fee of \$35 million.

But he says the positive buzz from Reckoning created interest and potential customers for the bigger, multiplayer online fantasy game that the company is developing, dubbed Project Copernicus, which is set in the same universe.

"That changed the tenor and velocity of all of our investor discussions," says Schilling. "We felt we were in an extremely positive place."

Still, given 38 Studio's previous inability to attract private financing, Schilling says the company needed short-term help from the state to stay afloat until private deals came through.

At the April meeting with Chafee, says Schilling, 38 Studios' executives said they needed to use \$8.7 million in 2011 film tax credits to provide that financial bridge and to meet the May 15 payroll.

They also discussed the need to lure private investors by giving them “senior security interests” in 38 Studio’s assets, most notably its intellectual property. That meant Rhode Island taxpayers would take a back seat to any private investor — something that Schilling says always was going to be necessary and had been discussed previously with the Rhode Island Economic Development Corporation, which issued the job-guarantee bonds.

Schilling says 38 Studios’ inability to give a private investor “first position” had created hurdles to attracting private venture capital, “but I’d always been operating under the assumption as our partner we’d come to agreements.”

As 38 Studio’s April talks with the state progressed, Schilling says, Chafee’s position was that “we are partners” and that he wanted to help. The paperwork for approval of the film-tax credits was moving along. Two EDC board members, Helena Foulkes and J. L. “Lynn” Singleton, were briefed on the plan, which would require approval of the EDC board, which is chaired by Chafee.

38 Studios was dealing with Keith Stokes, then-EDC’s executive director, and David Gilden, the EDC’s lawyer. On April 30, Schilling says, the company talked to Stokes about deferring the \$1.12-million payment that was due the next day, May 1, and using the money for the May 15 payroll. But the company also said that if the tax credits were issued in time, 38 Studios wouldn’t need the extension.

Stokes declined comment. Gilden could not be reached.

The company missed the May 1 payment. As a result, on May 4, the EDC issued a notice that 38 Studios had defaulted on its state loan agreement, making the company ineligible for the film-tax credits that it needed to stay afloat.

Schilling says the company was blindsided by the notice. Under terms of 38 Studio’s original agreement with the state, he says, the company should have had 30 days to address the missed payment before being declared in default.

That touched off frantic negotiations among 38 Studios, the EDC and Chafee. By the end of the following week, the word had begun leaking to reporters. Then, on Monday, May 14, Chafee said publicly that the state was working with 38 Studios to keep the company “solvent.”

In the ensuing days, as the 38 Studios story went viral, Chafee made other public remarks that Schilling calls damaging.

The governor said the Reckoning game released in February had been an “abject failure.” He also revealed the projected release date of Project Copernicus, June 2013, and 38 Studios’ “burn rate” — that it was spending \$4 million a month, the lion’s share on payroll.

The release date of a game is “the most costly piece of information we own,” says Schilling. And the burn rate is a closely guarded industry secret. “Those two nuggets were given out as if, ‘Here’s the weather and here’s the time.’”

“We made it clear in EDC meetings how damaging it was, what was happening to our company. [My workers] are sitting there, busting their [humps] without a paycheck, we’re grinding through this, and then he’s press-conferencing on a daily basis, saying this company is a failure, our games are a failure, this was a mistake — over and over and over again.

“Our partner.”

On Saturday, May 12, Schilling says, 38 Studios learned that the president of a video-game publishing company had approved a \$35-million deal to publish the sequel to Reckoning, and was going to his company’s executive committee that week for the money. But Chafee’s comments killed the deal, Schilling says.

The company also says Chafee’s public comments derailed discussions that 38 Studios says it was having with another publisher for a \$55-million deal on Project Copernicus, as well as a venture capitalist about additional financing.

38 Studios declined to identify the would-be investors, citing confidentiality.

Meanwhile, Schilling says, the EDC's Stokes and Gilden had agreed to a deal in which 38 Studios would pay the \$1.12-million fee and then EDC would facilitate the release of the tax credits, by certifying that 38 Studios was no longer in default.

The night before it was to go through, company director Thomas Zaccagnino says, he learned that the embattled Stokes, who was drawing heavy criticism for the 38 Studios deal, had resigned. Since Stokes had been a point person in talks with 38 Studios, a worried Zaccagnino texted Gilden, "Please tell me that this won't affect our agreement."

Responded Gilden: "it will not."

But the next day, when 38 Studios tried to pay the \$1.12 million with money from a tax-credit investor, executives say they found themselves in an embarrassing scene in which Chafee announced that 38 Studios had sent a bad check with insufficient funds.

Richard O. Wester, 38 Studio's chief financial officer, says he went to the EDC's offices at 5 p.m. that day with a check. Meanwhile, 38 Studios' controller was back at the office, waiting for the funds to be wired from the buyer of the tax credits into 38 Studios' account. When that happened, Wester would receive the green light to give the EDC the check.

But the tax-credit buyer, whom 38 Studios declined to identify, backed out — because the EDC lawyer Gilden would not provide a state guarantee to the buyer. When Wester learned that, he says, he never handed over the check.

Fifteen minutes later, he says, he saw a news story on The Providence Journal's website, quoting Chafee's spokeswoman that the company had given the EDC a bad check.

The next day, Friday, May 18, another tax-credit investor wired the \$1.12 million directly to the EDC. But the state did not release the tax credits to 38 Studios, and still hasn't —raising doubts about how that investor will ultimately be repaid.

When Schilling appeared at a closed-door meeting of the EDC board the following Monday, May 21, he says, he was faced with skeptical board members.

"The first question I was asked was, 'Why did you lie to us?'" says Schilling. "You said you didn't have the money, then you went out and wrote a check. I said, 'I didn't write the check. I don't have the money.'"

In two weeks, the partnership between the state and 38 Studios has come close to breaking down.

"Given where we're at, it's not flourishing," says Schilling, slumped in a chair Sunday in the 38 Studios conference room, his left cheek puffed out by a plug of chewing tobacco.

The state has declared 38 Studios in default of its loan agreement again, saying that it failed to notify the state when it laid off its employees last week. Bill Thomas, the 38 Studios president, produced a May 25 letter and e-mail notifying the state, which was within 24 hours of the layoffs. The company didn't tell the state sooner, Thomas says, to avoid leaks. "We wanted our employees to hear it from us first."

The state also has questioned 38 Studios' eligibility for the film-tax credits because the company is incorporated in Delaware.

Thomas, the 38 Studios president, countered with a May 25 letter that he wrote to the head of the state film office, Steven Feinberg, noting that the tax credits already had received "initial certification," which "by your own admission" means that a company registered to do business in Rhode Island, as 38 Studios is, qualified.

Wrote Thomas: "There was a fully negotiated deal and agreement on behalf of the State of Rhode Island by RIEDC executive director and its executive counsel to issue all the 2011 tax credits upon payment of the annual guaranty fee," wrote Thomas.

Says Schilling: "I don't know how we suddenly became ineligible. Delaware didn't move."

Meanwhile, Schilling and his partners are holding intensive discussions with private investors, both short- and long-term. The salvation of 38 Studios, and the intertwined fates of Rhode Island taxpayers, 38 Studios' employees and Schilling's fortunes, depend on a Rubik's cube of investors and aid from the state. Time is running out.

Schilling, 45, is alternately despondent and animated as he shows a reporter around the vacant fifth-floor offices. State-of-the-art cubicles are equipped with computers, decorated by statues of super heroes, photos from the fantasy worlds of Amalur, a Lego airplane, a water gun. The carpet is a colorful patchwork of yellow, orange, green and gray squares. A foosball table stands in a corner, near a kitchen, bright light streaming in from large windows overlooking Empire Street and downtown.

Since the company moved into these offices in April 2011, Schilling says, he has generally been at work every day by 8 a.m., trying to build a company that he says is like a family. Noting the throngs of reporters camped outside his doors, he praises the loyalty of his workers, a top-notch group of artists and engineers and designers, who have maintained their silence and stuck together. With the layoffs, some have brought groceries in for others, and offered coworkers a place to sleep.

Criticized for his silence, Schilling says he has wanted to respond to the charges against him but had been restrained by his advisers and directors, given the sensitivity of efforts to save the company.

He is asked to respond to critics who call him a hypocrite for having conservative, small-government values yet taking what they view as a big-government handout.

"I have done whatever I can do to create jobs and create a successful business, with my own income," he replies. "Fifty million dollars, everything I've ever saved, has been put back into the economy. The \$49 million from Rhode Island has been put back in the economy. I've never taken a penny and I've done nothing but create jobs and create economy. And so how does that translate into welfare baby? I've tried to do right by people."

He says he is speaking out now, in hopes of having people know the full story as they weigh 38 Studios' fate. He has sunk \$38 million into the company that bears his jersey number with the Red Sox, and also is on the line for another \$12 million in personal loan guarantees, he says.

"We're at a potential endgame scenario, one way or another, at some point in the near future."
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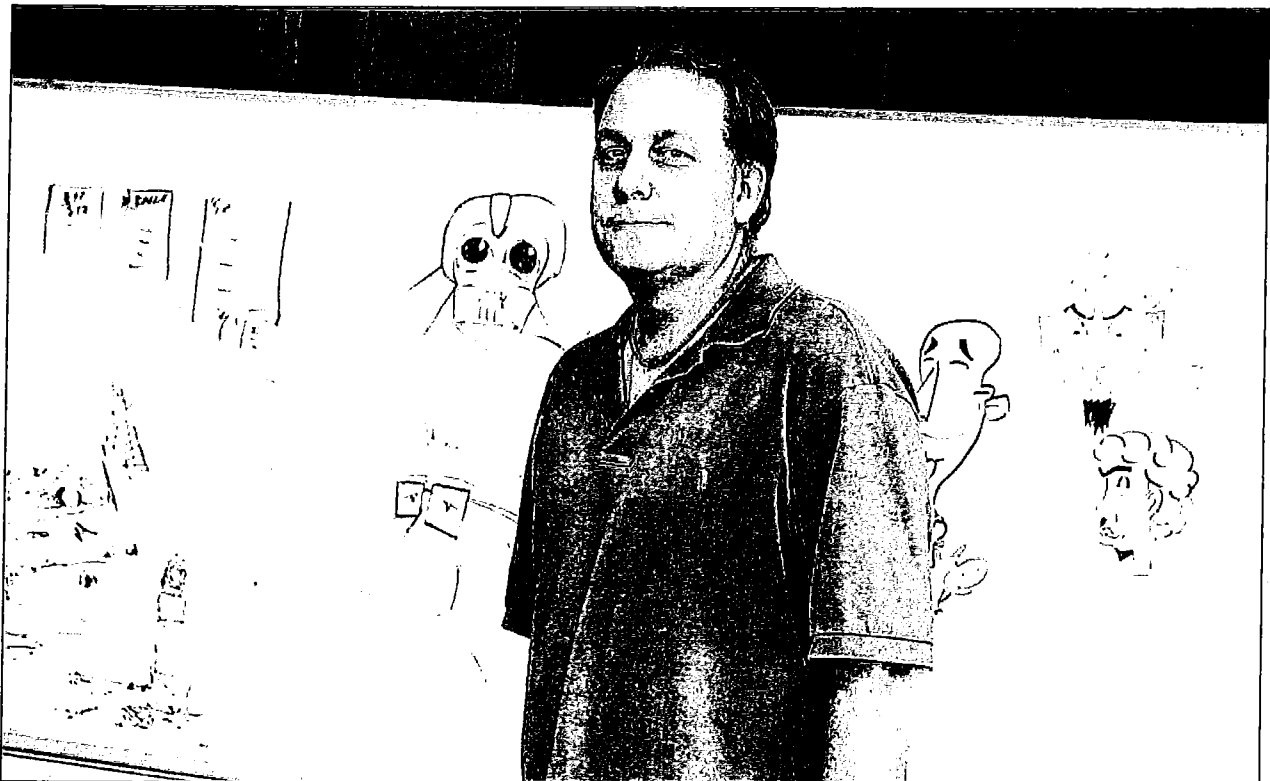


THE PROVIDENCE JOURNAL / CONNIE GROSCH

Curt Schilling surveys the now-empty fifth-floor offices of 38 Studios in downtown Providence Monday. On Thursday, the company laid off its 286 Rhode Island employees. He spoke to The Journal on Sunday and Monday.



A sculpture of a creature from the video game "Kingdoms of Amalur: Reckoning" rests in a glass case at 38 Studios.



THE PROVIDENCE JOURNAL / CONNIE GROSCH

With a white board behind him, with sketches drawn by employees, Curt Schilling Monday talks about his frustration with the governor, the Economic Development Corporation and his efforts to gain private financing and build a company.



Below is Governor Chafee with his chief of staff, George Zainyeh.

5/30/12

38 STUDIOS

Chafee denies his words scared away investors Governor says he had 'to be honest' with taxpayers; another EDC member resigns in wake of crisis

By KATE BRAMSON and KATHERINE GREGG JOURNAL STAFF WRITERS

PROVIDENCE — As another high-profile member of the state's economic-development board resigned, Governor Chafee on Tuesday denied retired Red Sox pitcher Curt Schilling's accusation that his "devastating" comments about 38 Studios and its first video-game offering scared off potential private investors.

"No, absolutely not," said Chafee at the latest news conference he has held since the company first tumbled into default on a \$75-million state-guaranteed loan. By late last week, the company had laid off all of its employees.

"An investor's not going to be scared away by some governor's comments on this. It just, it defies logic. Investors look at the bottom line: 'Can I make money?'"

Chafee said he had "to be honest" in his dealing with Rhode Island taxpayers, who could be on the hook to repay \$102 million over the next eight years if 38 Studios cannot make its required bond payments.

Chafee has called the company's first video game, released in February, an "abject failure," an analysis he received from a consultant whom he refuses to name. Chafee also has said the company was burning through \$4 million a month, and he disclosed the next game isn't expected to be released until June 2013 — two key "nuggets" that Schilling criticized Chafee for releasing in an exclusive interview over the weekend with The Providence Journal.

Chafee's defense of his administration's oversight of 38 Studios came on the same day he announced that J. Lynn Singleton, president of the Providence Performing Arts Center, has become the latest board member to resign from the Rhode Island Economic Development Corporation. Singleton was one of four remaining board members who voted for the controversial loan guarantee. Singleton has not returned requests for comment.

The governor said a forensic audit of 38 Studios could begin as early as Wednesday.

The state loan guarantee lured 38 Studios to Providence from Massachusetts, despite criticism within the business community and strong opposition by Chafee as he ran for governor.

Now, the company's financial viability hangs in the balance. Both Schilling and Chafee say they don't know if the company will survive.

For the first time, Chafee said Tuesday that EDC officials have received timely, monthly financial reports from 38 Studios all along.

Chafee also said General Treasurer Gina Raimondo was wrong to say 38 Studios could not have run into difficulty overnight.

"The red flags were just not there," Chafee said. "They were making their benchmarks and adhering to the criteria of the loan and trust agreement."

Although Chafee said he did not look at those financial reports himself, the EDC was monitoring them.

"There is a very able staff in charge of that, including an EDC director who was there at the inception of this deal," Chafee said. "So I had some confidence that this was being overseen very competently."

Chafee said he has worked diligently to help the company since it missed a May 1 payment of \$1,125,000 it owed to the EDC and did not publicly acknowledge the missed payment, which put the company into default on its loan agreement, for two weeks.

As Schilling faced short-term cash needs, including the company's mid-May payroll, he was counting heavily on receiving \$8.4 million in state film tax credits. If granted, the company could then sell those credits to anyone with a Rhode Island tax liability to raise quick cash.

Schilling and his top executives said they had been dealing with then-EDC Executive Director Keith W. Stokes, who has since resigned, and it appeared the approval of the credits was moving along. The company believed it would again be eligible for the credits if it emerged from default by paying that late payment.

Yet questions have since arisen as to whether 38 Studios is even now eligible for those credits because it's incorporated in Delaware. By law, such credits are supposed to be limited to companies incorporated in Rhode Island or "formed in Rhode Island."

But Schilling and his team appear to have believed this was a nonissue, in part because 38 Studios, which is headquartered in Rhode Island and registered to do business here, had received "initial certification" letters from the state film office, headed by Steven Feinberg.

State Tax Administrator David Sullivan said initial certification is by no means a guarantee that any company will get tax credits.

"It simply puts a company in the queue," he said, but then they have to meet all other requirements in state law and submit their expenses for review.

Of Schilling's belief that 38 Studios would get the tax credits quickly, with Stokes' help, if it made that missed payment, Chafee said: "I don't think he [Stokes] had that authority. There's a process. Unfortunately, they didn't understand that process. I regret that."

All that said, Chafee repeated his reluctance to award the tax credits: "I want to have the confidence that this is going to lead to some financial footing, and I just haven't gotten that confidence at this point."

Chafee's late-day briefings have drawn praise and caution.

For example, Marion Orr, director of Brown's Taubman Center for Public Policy, said: "This could be a critical opportunity for Governor Chafee to show his leadership skills in a moment of real crisis and uncertainty. He's been quite transparent and straightforward and talking in plain language and seemingly trying to think it through."

Orr said the governor needs to strike "a delicate balance in how far can he go in bashing a company where the voters, the taxpayers, might have to step in if it fails."

Orr said that questions of whether Chafee adequately monitored 38 Studios could also hurt him politically, depending on how this "high drama" plays out.

Journal staff writers Andy Smith and Mike Stanton contributed to this report.
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Chafee

38 Studios: Broke Rhode Island now owns a video game company

By Ken Sweet @CNNMoneyTech May 29, 2012: 7:51 AM ET

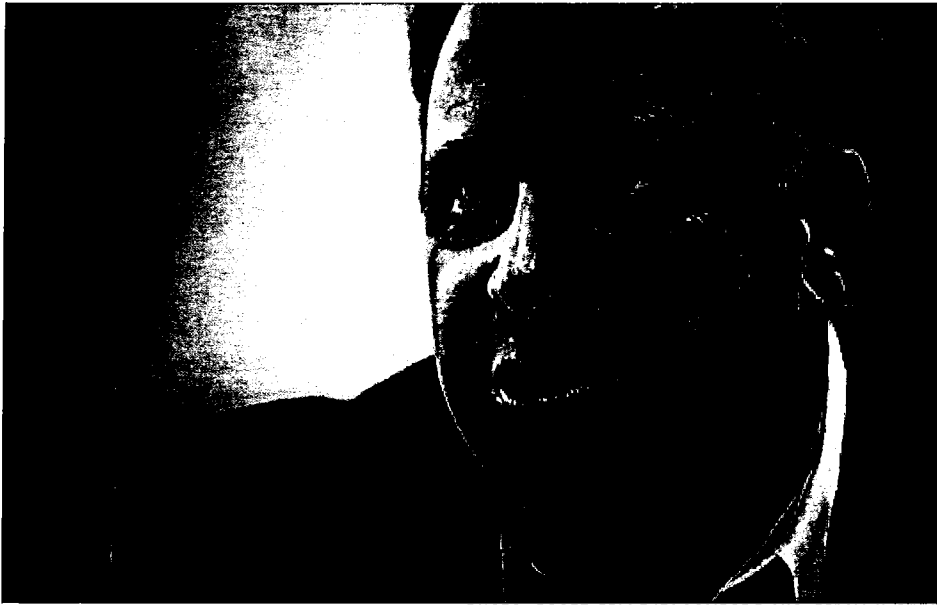


PHOTO: SCOTT ELLS/BLOOMBERG VIA GETTY IMAGES

Former Boston Red Sox star pitcher Curt Schilling founded 38 Studios to bring jobs for skilled professionals to a state struggling to expand its workforce.

NEW YORK (CNNMoney) -- Rhode Island owns a video game company. That wasn't supposed to happen.

Taxpayers in the small, financially stricken New England state are on the hook for tens of millions of dollars loaned out to the video game company **38 Studios**. Founded by former Boston Red Sox star pitcher Curt Schilling, the company was supposed to bring jobs for skilled professionals to a state struggling to expand its workforce. But on Thursday, 38 Studios laid off its entire staff of roughly 400 employees with no pay. It also cancelled their health insurance.

For a lack of a better description, 38 Studios went out of business. Now Rhode Island is stuck with the tab of roughly \$112 million in loan principal, interest and fees. There's little chance taxpayers will make up even a quarter of their potential losses, according to industry experts.

The story of 38 Studios has everything: sports stars, political incompetence, government bailouts, taxpayer outrage and -- the kicker -- big-budget video games.

The storm began nearly two years ago, when the Rhode Island Economic Development Corporation, under political pressure from former Republican Governor Donald Carcieri, gave 38 Studios \$75 million in loan guarantees as an incentive to relocate from Massachusetts to Rhode Island.

The goal was noble: **Rhode Island suffers from the second-highest unemployment rate in the nation -- 11.2% -- and has struggled to attract companies**, which often prefer its northern

neighbor Massachusetts. The pitch to politicians and taxpayers was that a big video game venture would help catalyze a local technology hub.

Related story: Economic prospects looking good in 47 states

But the deal was flawed from the start, experts say.

38 Studios was barely three years old and hadn't shipped a single product. Further, 38 Studios' big project was the development of what's known as a "massive-multiplayer online role playing game," better known as a MMORPG. That's an extremely expensive genre with a very mixed track record of financial success.

"I think Rhode Island was star-struck by Curt Schilling," says Alexander Sliwinski, news editor for the video game site Joystiq. "You didn't see Rhode Island give Harmonix, Irrational, Turbine -- all companies with established track records -- \$75 million to move."

The loan was not popular with taxpayers. A poll done in September 2010 by CBS affiliate WPRI-TV found 54% of Rhode Islanders opposed the loan, versus 28% in favor. All candidates in the 2010 governor's election publicly opposed the deal, including current Governor Lincoln Chafee.

It didn't make a difference. "38 Studios had the support of the people who mattered," says Ted Nesi, reporter for WPRI.

38 Studios took the money and moved to Rhode Island in 2011, releasing its first game -- *Kingdom of Amalur: Reckoning* -- in February 2012. For a brand-new series, the game sold reasonably well: 400,000 units in the first month. Schilling later said the game went on to sell 1.2 million units since launch.

But the release of *Reckoning* was not enough to keep 38 Studios afloat. The company's main MMORPG project, known as *Project Copernicus*, was more than a year away from release. Gov. Chafee said in a press conference this week that 38 Studios was burning through roughly \$4 million a month in cash just to keep up with Copernicus' development.

38 Studios' troubles became public two weeks ago, when the company failed to make a \$1.125 million interest payment, causing it to default on its government-backed loan. Chafee called an emergency meeting of the Rhode Island Economic Development Corporation, his office and 38 Studios with the goal of "keeping 38 studios solvent."

38 Studios eventually did make the \$1.125 million payment -- but at the cost of making its payroll. Its staff hasn't been paid since May 1. Two weeks later, 38 Studios was out of business. The workers that Rhode Island spent millions to attract are now unemployed.

"The whole idea was flawed from the start," says Kevin Dent, a 14-year veteran of the industry who funds start-up video game companies.

"MMOs are the third rail of the industry. Even established publishers get into trouble with MMOs," he says. "The latest good product, *Star Wars: The Old Republic*, Electronic Arts spent \$200 million to develop plus \$80 million for post-launch content and support. Then they spent

\$50 million on marketing. You cannot make a MMO for \$75 million. Rhode Island didn't do their due diligence."

Nearly all of the Rhode Island Economic Development Corporation's board of directors have resigned or asked not to be reinstated when their terms end.

Rhode Island now effectively owns all of 38 Studios' intellectual property and the rights to *Kingdom of Amalur: Reckoning* and *Project Copernicus*. Dent expects Rhode Island to try to sell the assets to a major publisher -- most likely Electronic Arts (EA), since they were 38 Studios' publisher for *Reckoning*.

Financial analyst Michael Pachter, with Wedbush Morgan Securities, thinks 38 Studios might be worth \$20 million now. However, an out-of-business shell with a half-finished game and no employees isn't going to price well on the market, Dent says.

"[Rhode Island] should have gotten an injunction against 38 Studios from making any material decisions like laying off employees," Dent says. "You could have put together a tax credit package for 38 Studios employees. You need these creative people to make 38 Studios worth anything."

The political fallout from the 38 Studios debacle is likely to be felt throughout the industry, Dent and Sliwinski predict. The video game industry has relied on tax credit packages in return for setting up shop in certain states. Rhode Island, and the millions of dollars it is now owed, will be fresh in politicians' minds when these tax credits come up for renewal over the coming years.

"The industry is going to have to work hard now to show that Rhode Island's problems are not the norm in the industry, but a freak anomaly," Sliwinski says. ■

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Originals

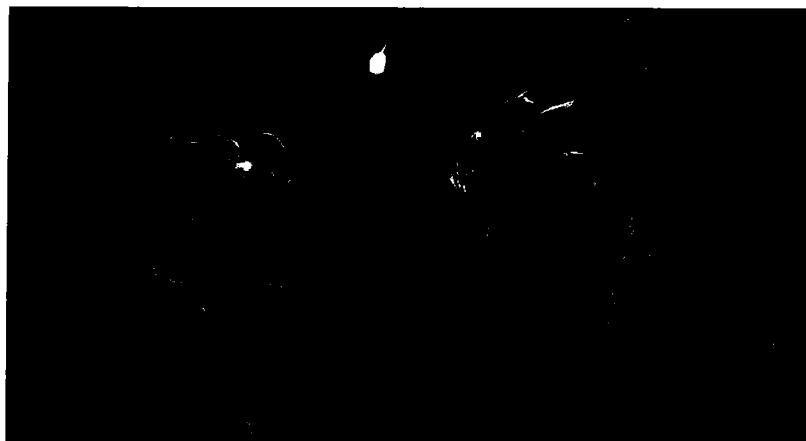
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Editorial: Who's To Blame For the 38 Studios Fiasco?

We examine the problem at hand, and wonder if there's any resolution for the employees involved



Posted by: [Robert Workman](#)



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At first it sounded too good to be true.

Curt Schilling, who at one time was part of the championship Boston Red Sox team that made baseball history (remember the bloody sock?), was convinced that he could open a good game studio, and 38 Studios was born soon after.

It almost seemed like the company was making all the right moves. They made a \$75 million deal with the Rhode Island Economic Development Corporation, promising to bring big revenue and jobs to the state upon a relocation from Massachusetts. And shortly thereafter, the company struck a huge deal with Electronic Arts to public *Kingdoms of Amalur: Reckoning*, a game featuring the talents of Todd McFarlane (art direction) and R.A. Salvatore (author) and introducing the kind of adventure engine that fans have been craving since Fable went a "little dry" in its latest release.

The game released as expected earlier this year, and sold a significant amount of copies, proving that 38 Studios had what it took to stick around in the long haul with RPG developments, with a rumored MMORPG on the way for a 2013 release.

So, with that...we have to wonder. What went wrong?



Well, pretty much everything. Earlier this month, the state of Rhode Island showed concern over a missed scheduled payment, following rumors that employees had been missing out on their paycheck, spelling a rough situation since most of them had relocated with mortgages covered by the company. To make matters worse, an attempted payment to the state ended up bouncing, resulting in a returned check. The company did manage to make a successful payment a few days later, but to no avail.

A few days later, it was reported that higher-ups for the company, namely CEO Jennifer Maclean and Senior Vice President of Product Development John Blakely parted ways with the company, updating their LinkedIn files. Meanwhile, the state of Rhode Island grew a little iffier on the issue, insisting that the proposed MMO project was still due in 2013.

But then, like a nightmare coming true, the development studio shuttered completely on May 24, with all 400+ employees being let go by Schilling. Worse yet, some folks found themselves up a creek without a paddle, saddled with a second mortgage that they couldn't afford.

Now it's easy to point fingers at an issue like this. Fund mismanagement, promises made by governor Lincoln Chafee that weren't kept...and then there's Schilling. But we may never find out the truth, like why Rhode Island government didn't attempt to cut 38 Studios a break until an explanation was in order, or why Chafee acted the way he did instead of trying to support the team. Worse yet, the closure may have affected the state in itself, with local businesses suffering as a result.



But that doesn't mean Schilling is squeaky clean on the whole thing. According to several online reports, Schilling made a \$4 million investment in the company, but rather than use it to flourish the payroll and get things done, he paid himself back using part of the Rhode Island loan.

WEEU columnist Kirk Minihane wrote on Schilling, "The \$4 million Schilling quickly snatched back would've bought a couple of weeks worth of payroll, no? If he truly felt, as he wrote on Tuesday afternoon, that the people at 38 Studios were "determined to stand together as hard and as long as they can," why not keep the taxpayers and the government out of it and be the picture of personal accountability for a month or two? Better yet, why did Schilling even accept the loan in the first place? A real limited government guy might have punted when he couldn't raise enough private

equity, or would have paused before going into business with a group as inept as the Rhode Island Economic Development Corporation.

"The answer to both is this: Because Curt Schilling isn't pro-business, isn't pro-limited government, isn't pro-conservative, isn't even pro-38 Studios. He's pro-Curt Schilling. Whatever's best for Schilling is what will be done."



So ultimately, it sounds like a combination of things – the Rhode Island government not giving the team the chance it deserved, and Schilling not standing up for his employees after realizing, too late, that game development may not have been his bag. Either way, there's no excuse, and now 400+ people are paying the price, scrambling to find new work and make ends meet, while not being compensated for the work they should've been rewarded for.

It doesn't really make much sense at all, especially considering how well *Kingdoms of Amalur* performed for the parties at hand, selling more copies than anticipated. But perhaps it serves as a hard reminder that not everyone is cut out to make a game development studio, especially if they're not understanding of whose jobs are at stake, or how the slightest little move can turn you from hero to villain.

Here's hoping those folks land on their feet. There are plenty of studios throwing out job offers, so we believe they will. Just watch out for those legislators and those who don't understand how operating a game studio is supposed to work. We're looking at you, Bloody Sock.

Tags: [Kingdoms of Amalur: Reckoning](#), [38 Studios](#), [Curt Schilling](#), [Rhode Island](#)

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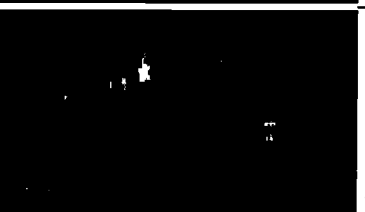
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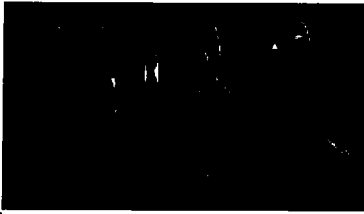
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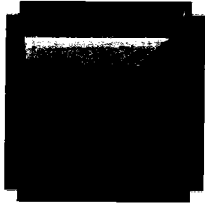
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trailer
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ESRB Rating

M

Platforms

PS3, Xbox 360, PC

Genres

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Publishers

EA, EA

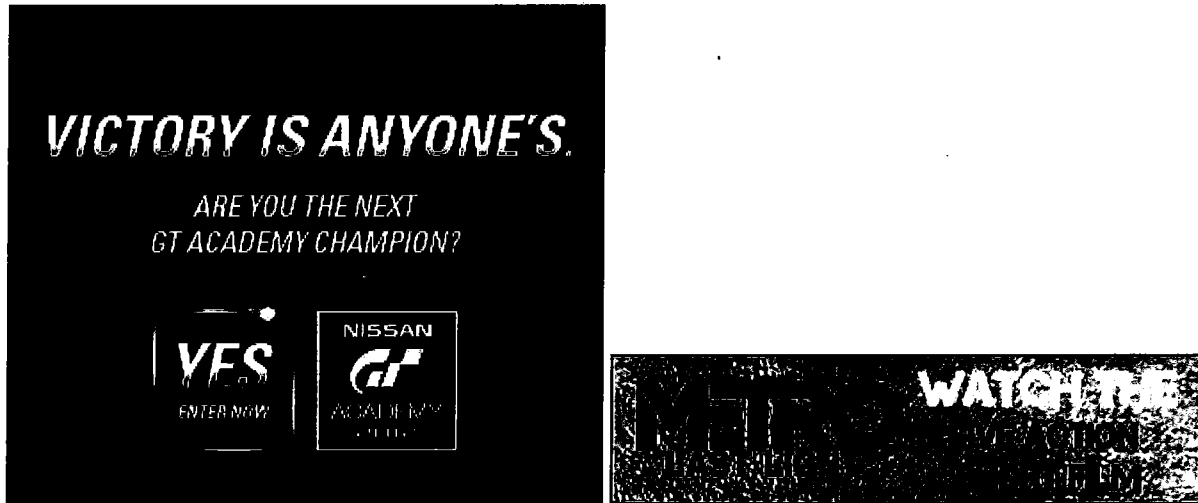
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38 Studios

Release Date

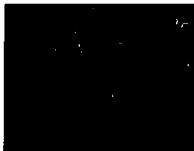
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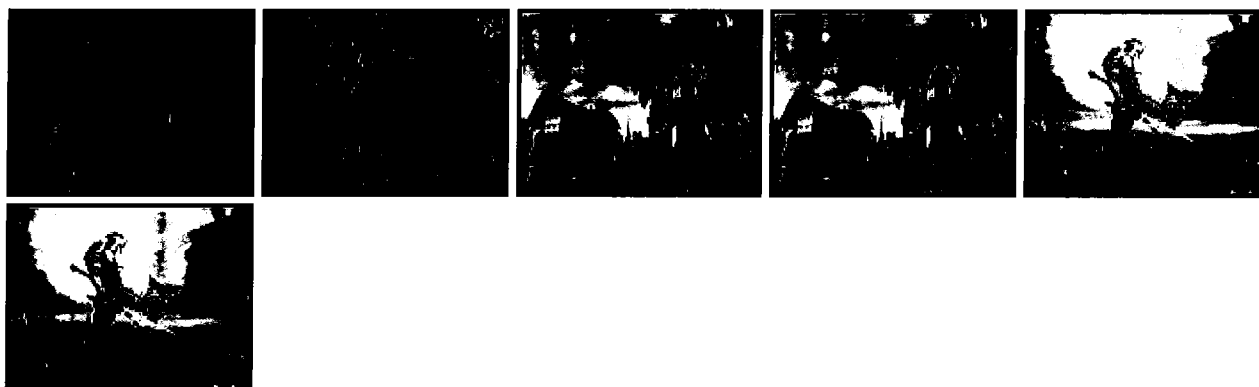
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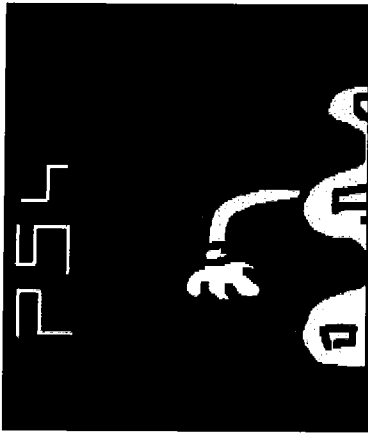
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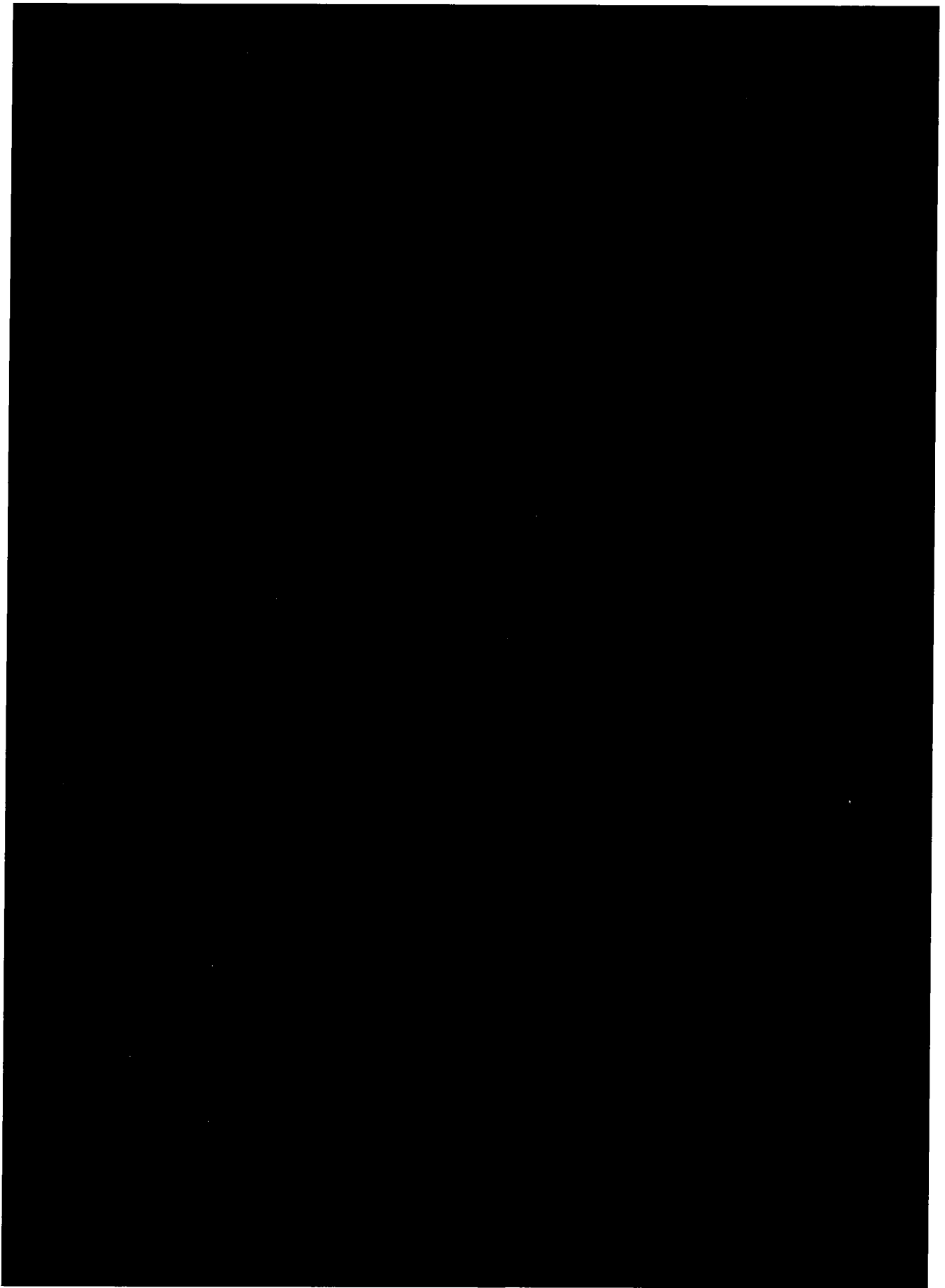


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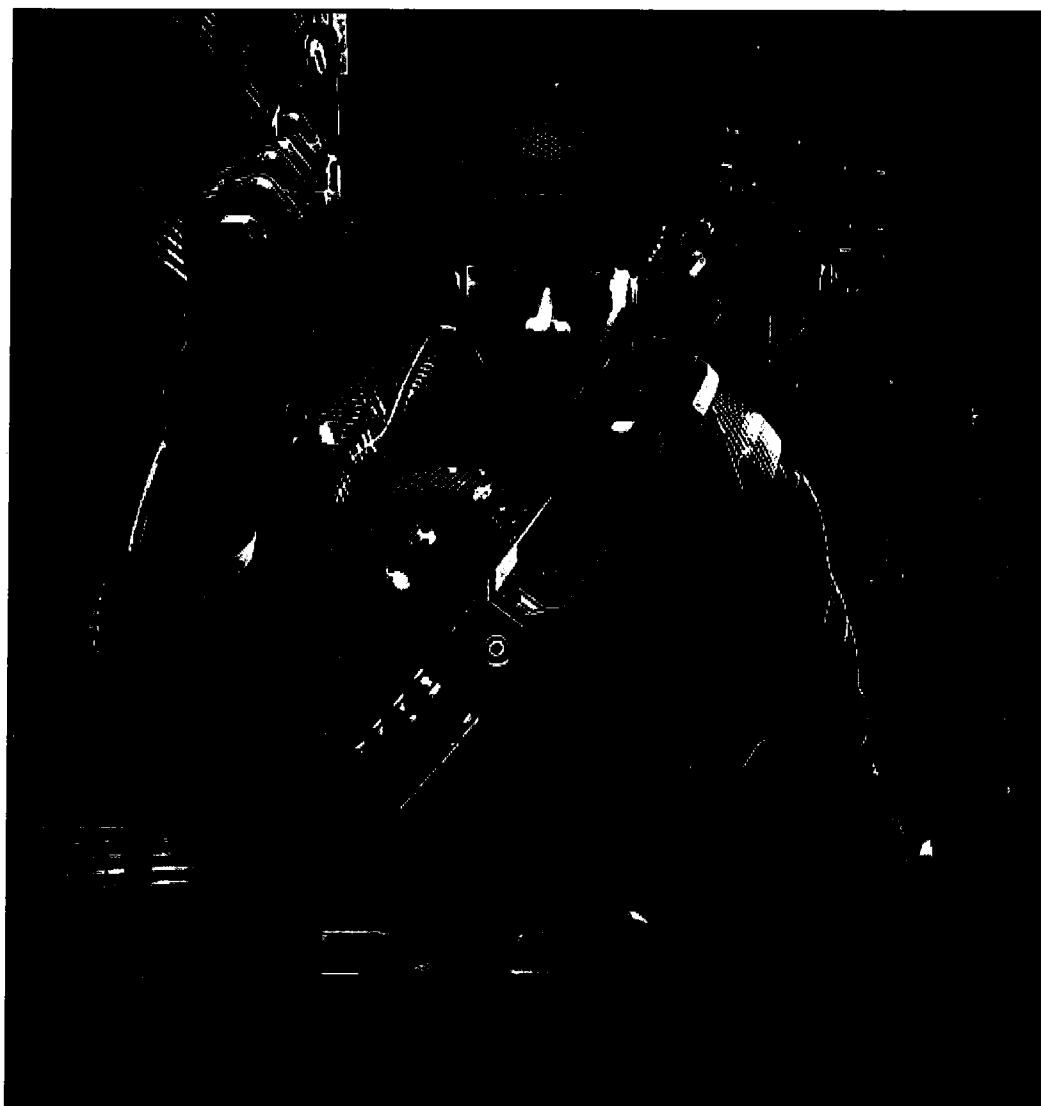


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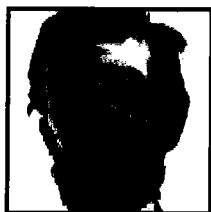
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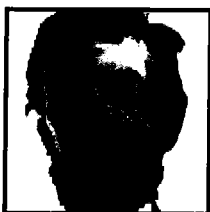
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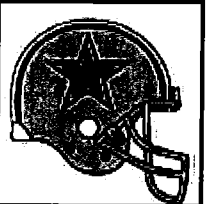
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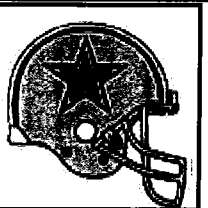
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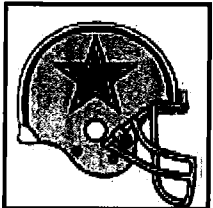
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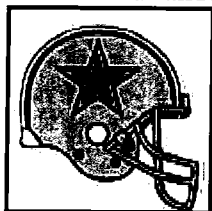
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BREAKING NEWS

R.I. film tax-credit broker at center of 38 Studios' bid to stay afloat

Comments 0

June 2, 2012 6:15 am

By Mike Stanton

PROVIDENCE, R.I. -- The Rhode Island film tax-credit broker who helped bring 38 Studios to Providence through his friendship with House Speaker Gordon D. Fox was at the center of 38 Studios' attempts to stay afloat early this year, arranging for \$8.5 million in loans for the cash-starved video-game company.

The loans to the broker, Michael Corso, were secured by \$14.3 million in anticipated film tax credits sought by Curt Schilling's video-game company -- and the former Boston Red Sox star's collection of 3,200 gold coins worth anywhere from \$2.5 million to \$5.5 million.

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According to Rhode Island financial filings, Corso borrowed the money in January and February from Bank RI, secured by the Rhode Island film tax credits, which had yet to be issued but which had received "initial certification" from the Rhode Island Film & Television Office.

SI

The records also show that Blue Cross & Blue Shield of Rhode Island struck agreements with Corso in January to purchase the tax credits for an unspecified amount, to reduce the health insurer's state tax liability.

Corso, a leading broker of Rhode Island tax credits, stood to make a profit by selling the film credits to Blue Cross once they were issued by the state.

But when 38 Studios' cash crunch led the company to miss a \$1.12-million payment due the state on May 1, things fell apart.

-- With reports from Journal staff writer Paul Grimaldi

M

Mike Stanton -- 277-7724

IN THE PAPER

Learn more about Michael Corso's role in the financing of 38 Studios in this Saturday's Providence Journal.

M

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PROP

Score: 2

1:08 PM on 6/3/2012

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Has anyone at the Projo requested from the RI Film & TV office, a copy of their impact analysis regarding 38 Studios request for tax credits(required by § 44-31.2-6.1) ?

Have they confirmed that "initial certification" thru the RI Dept of Taxation, and if so...will they link to that initial certification?

1 reply



wake up RI

Score: 4

12:08 PM on 6/3/2012

Report Abuse

Rhode Island County, MA....

has a nice ring to it.

4 replies



Dog_Diesel

Score: 1

11:57 AM on 6/3/2012

Report Abuse

Looks Fox and Corso are the ringleaders and Carcieri just another pawn. Should Carcieri have known better, you would think so but apparently not. I think he was blinded by a fear of high unemployment and deficits legacy. He was trying for a home run in his last at bat. The film tax credits, veiled as economic incentives, have become an industry of it's own. No one lends millions without collateral so I'm sure more names will be popping up on the radar. There has to be a paper trail and I'll bet Shilling still has cards to play. It can only get worse from here.

2 replies



DidYouReallyMeanThatWasCensored3

Score: 6

11:32 AM on 6/3/2012

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buzzer1 made me spit my coffee with this,

"Remove all repugs(was one but not anymore)

from office since they are the ones without

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PROVIDENCE
Journal

Schilling: State broke financial promises as governor scared away investors

R.I. Gov. Chafee says Schilling wrong to blame his comments for 38 Studios problems

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R.I. pot decriminalization bill moves forward

R.I. film tax-credit broker at center of 38 Studios bid to stay afloat

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Schilling: State broke financial promises as governor scared away investors

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transparencies in these obscure deals and always protecting the 1% and giving away all our natural resources and billions of our tax monies to the big oil companies;" They are just "do nothing" and obstructionist that want to kill our economy to blame the democrats.


Bwaaaaaa hahahahahhahah hahahahaha.

This pathetic excuse of a state has been run by the Corruptocrats for SEVEN DECADES. Count 'em SEVEN, buzzer! And where are we now after SEVEN DECADES of Corruptocrat VETO-PROOF control?

Dream on with your "repugs" comment. Let's call Colletta Towing and see if they've got a wrecker strong enough to tow your head out of the sand. Even then, I'm sure we'd have to use a crane to lift up your eyelids. By the way, the ones who voted against the \$125 million catastrophe were Republicans. You gonna blame them for that? How much "credit" are you gonna give Democrats in THAT wonderful job-creation endeavor. Worked out wonderfully, didn't it?

As Bugs Bunny would say, "What a moroon."

And for the record, I WAS a registered Democrat for 30 years (1980- April of 2010). When I saw that Obama, Reid, Pelosi and the rest of the 111th Congress were hellbent on spending the country into oblivion, THAT'S when I changed my voter registration to "unaffiliated". The only Democrat I voted for in 2010 was Raimondo. I'm quite certain I won't be voting for any this November.

 2 replies



Jose Toledo

11:15 AM on 6/3/2012

Score: 6

[Report Abuse](#)

R.I. pot decriminalization bill moves forward

Friend of "FOX", wonder how much he is making on this deal. Fox is DIRTY as they come!!!!

38 Studios didn't move to RI because of the loan, it was all about how much these DIRTY A** politicians were to gain financially. I can just imagine all the back door deals that were broken and the \$\$\$\$ that exchanged hands to make this happen.

RI Politics at its best!!!!

Voters, pay attention FOX and PAIVA along with the entire General Assembly need to be voted out come election.



buzzer1

Score: -3

Report Abuse

10:36 AM on 6/3/2012

Remove all repugs(was one but not anymore) from office since they are the ones without transparencies in these obscure deals and always protecting the 1% and giving away all our natural resources and billions of our tax monies to the big oil companies; they even want to take away our social security monies and medicare to protect the ultra riches. They are just "do nothing" and obstructionist that want to kill our economy to blame the democrats. Good job Chafee, now go after Carcieri assets which must be hidden in trust funds or gift to friend and family.

1 reply



trooper111

Score: 2

Report Abuse

10:35 AM on 6/3/2012

Unfortunately, none of this will matter in November. The RI "stuck on stupid" voters will continue to vote Democrat and put all these folks back in office. Carcieri needs to come out of hiding and admit is role in this fiasco.

1 reply

ginger01

Score: 6

Report Abuse

9:00 AM on 6/3/2012



Question the " THE FOX "

1 reply



IMDLAW

Score: 6

8:44 AM on 6/3/2012

Report Abuse

If the Projo had any competence at all, we'd have an article naming names of Schilling's other company and RI business associates.

I wonder why Curt Schilling didn't use his other company, Multi Man Publishing, LLC , a Hasbro affiliate, as loan collateral? Or better yet, ask his pals (business associates) at Hasbro for the money?

While I'm unaware of the sort of experience he has had in computer gaming prior to the 38 Studios project, he is quite well known in the board wargaming community.

His company Multi-Man Publishing (January 1995 – Present) is responsible for rescuing the collapse of their original publisher Avalon Hill back in 1998 and that company is doing quite well, with an extensive line of board games, sold in house, on-line and on E-Bay. So it's not like Schilling has inexperience in operating or creating a company.

However, I would assume they have taken care to insulate Multi Man from any effect?



wake up RI

Score: 6

8:26 AM on 6/3/2012

Report Abuse

...."loans to Corso"... "Corso borrowed money from Bank RI"...

Loans secured by the BC/BS agreement for the net proceeds of the tax credits & secured by Curt's gold.

Why did Corso need loans?

Why did Corso get loans?

What happened to the loan proceeds?

Who is on the hook for the repayment of the

loans?

Why was Curt's gold used to secure loans TO Corso?

If Corso was simply brokering the tax credits on 38Studios behalf, why was the tax credit agreement used to collateralize a loan to Corso?

Was Corso entitled to the entire net proceeds from the agreement or did he pledge only his commission portion as security on the loans to him?

How could the Governor not know that Curt's gold and the tax credits were already pledged (back in January & February) as collateral for loans to Corso?

Picture the April meeting in Schilling's office, when Schilling summoned the Governor & Fox to his office...

Schilling told them he was "tapped out".

Would he have been calm about this?

Would he have been happy about it?

Wouldn't he have been saying things like:

Corso used my gold!! MY GOLD!! To collateralize a loan - and HE got the proceeds!

Corso already sold those tax credits! And he used the agreement to collateralize a loan - and HE got the proceeds!

This was in April - the Governor said so.

This was BEFORE Curt defaulted on the May 1 payment.

So why did the Governor go to the microphone at the May press conferences and mumble about tax credits?

How could the Governor (EDC Chairman) NOT have known what was going on?!

And, of course, Fox knew everything.

This is bad.

This is very bad.

And Paiva-Weed's Agrigultural Committee is about to vote to create ANOTHER new RI quasi under EDC to issue BONDS - June 6 at the Rise of the Senate!

Paiva-Wee wants her turn...even though the public does not want the East Bay Energy Consortioum and their wind farm.

Bond counsel Thomas Moses is salivating for this deal. He's pushing hard for it. His firm made \$190,000 on the 38Studios bond deal. He wants more money.

Who is buying RI bonds, anyway?

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38 Studios loses CEO and high-profile VP, LinkedIn suggests

 May 23rd, 2012 at 12:12 pm by [Ted Nesi](#) under [Nesi's Notes](#), [On the Main Site](#)



Two of 38 Studios' top executives have apparently left the struggling company.

38 Studios CEO Jen MacLean, who's been on maternity leave for the past two months, removed the title of chief executive from her LinkedIn profile on Wednesday and listed the date of her departure from the video game company as March.

John Blakely, 38 Studios' senior vice president of product development, also revised his LinkedIn profile to show that he left the company this month, describing his work there in the past tense: "I was responsible for leading the 38 Studios development teams in Baltimore, MD and Providence, RI."

MacLean and Blakely did not immediately respond to requests for comment. Blakely was still with the company as recently as Monday evening, when he joined Curt Schilling at a meeting of the R.I. Economic Development Corporation board to discuss the company's cash crisis. He joined the firm in January.

An EDC spokeswoman could not immediately comment on the executives' status.

On March 15, 38 Studios trumpeted the hirings of Blakely and another new senior vice president, Mark Hansen, in a press release that described their arrivals as a sign the company was bringing in executives well-versed in the massively multiplayer online (MMO) game industry it's targeting with "Project Copernicus."

"John and Mark [Hansen] have had a decade of experience, and success, in the MMO space and I'm excited they are now part of the 38 Studios family," Schilling said at the time.

More coverage of the crisis at 38 Studios:

- Analysis: Brain drain is 38 Studios' most pressing problem now (May 22)
- Top industry analyst pegs 38 Studios' game assets at \$20M (May 23)
- Seven of EDC's current directors voted to OK 38 Studios deal (May 23)
- 38 Studios workers among 300-plus at Tuesday recruiting event (May 22)
- Schilling praises 'breathtaking resilience' of 38 Studios staff (May 22)
- Another game studio to recruit in RI with 38 Studios struggling (May 22)

Publication: The Providence Journal; Date: May 31, 2012; Section: Rhode Island; Page: A1

38 STUDIOS

Auditors reviewing firm's status

Stephen Lane, chairman and chief venture officer of Ximedica LLC, is latest to resign from Economic Development Corporation

By ANDY SMITH JOURNAL STAFF WRITER

PROVIDENCE — Governor Chafee announced Wednesday that teams of auditors appointed by the state had begun a forensic audit of 38 Studios, Curt Schilling's financially troubled video-game company.

Chafee also announced the resignation of Stephen Lane, chairman and chief venture officer of Ximedica LLC, from the board of the state Economic Development Corporation. Lane had voted in favor of the controversial \$75-million loan guarantee that lured 38 Studios to Rhode Island in 2010.

Chafee said examiners from Deloitte Financial Advisory Services LLP and Braver PC went to 38 Studios, at One Empire Plaza in downtown Providence, Wednesday afternoon to begin the audit.

He said it's still undetermined how much the audit will cost or how long it will take. Under the state's agreement with 38 Studios, he said, it is 38 Studios' responsibility to pay for the audit.

"There's a lot of questions still out there, and that's why you do an audit," Chafee said. "Let's find the true information and make sure we're dealing with facts, rather than guesses ... how they spent their money, what went in, what money went out."

Forensic audits dig deeper into the financial records than ordinary audits, and they are often used to uncover evidence that can be used in court.

Chafee said he has not spoken to Schilling since Tuesday, when The Providence Journal published an interview with Schilling in which the former Red Sox star blamed many of his company's problems on broken promises from the state.

Schilling's company laid off all its workers — 286 in Rhode Island and another 100 at its Maryland subsidiary — on May 24.

"The truth is, it's hard to get straight answers from [38 Studios]," Chafee said. "I find it frustrating even when we have these communications, we don't get square answers."

The state contends that the company is in default of its agreement with Rhode Island because it failed to inform the state of the layoffs.

On Sunday, 38 Studios executives said they had told the state in writing about the layoffs within 24 hours.

Chafee said the forensic audit would "absolutely" look at how much money Schilling invested in the company, and whether he took any out.

On Sunday, Schilling told The Journal he had put \$50 million into 38 Studios: \$38 million in cash and \$12 million in personal loan guarantees and had "never taken a penny" out.

Chafee said the hope is still that an outside investor could step in to save 38 Studios, but he sounded highly pessimistic.

From his remarks, it appears unlikely 38 Studios will obtain the \$8.7 million in 2011 film tax credits that it was hoping to receive as a "bridge" until additional private financing could be found.

"Bridges have to lead to some strong financial ground; that's what bridges are for," Chafee said.

At the Economic Development Corporation, which crafted the deal that brought Schilling to Rhode Island, Chafee has been working to remove all the board members who voted for the plan.

Asked if he had requested Lane's resignation, Chafee said the two held "conversations" on the subject. Lane could not be reached for comment Wednesday night.

After Lane's resignation, only one board member remains who voted in favor of the 38 Studios deal, Rhode Island AFL-CIO president George Nee. Chafee requested that Nee step down from the board. Nee has refused.

"I've had conversations with those who voted for it," Chafee said. "The issue of a conflict going forward was an important one.... I think we need a fresh start on the EDC."

Other board members to resign this month are E.L. "Lynn" Singleton, president of the Providence Performing Arts Center, and Chafee's own appointee, CVS Care-mark executive Helena Foulkes.

Foulkes was not on the board when the 38 Studios deal was under consideration.

Dr. Timothy Babineau, president of Rhode Island and Miriam Hospitals, requested not to be reappointed. He, like Nee, was serving on the board even though his term had expired.

Chafee said Daniel Sullivan Jr., president and CEO of Collette Vacations, also asked not to serve again on the board. His term had expired as well.

Keith Stokes, executive director of the EDC, resigned May 16.

Chafee said he hopes to announce new EDC appointments soon, but would not reveal his nominations Wednesday.

Chafee has blamed 38 Studios' financial problems on the "failure" of its first game release, "Kingdoms of Amalur: Reckoning."

Electronic Arts, the California publisher for "Reckoning," said the game has sold more than a million copies. Schilling said it has sold about 1.3 million copies since its release in February.

"Reckoning" was produced by Big Huge Games, the Maryland game company Schilling bought in 2009. Schilling told The Journal that he had been in negotiations with a publisher for a sequel.

With staff reports by Kate Bramson asmith@providencejournal.com

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Chafee

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POLITICS

Legislators didn't have all facts on 38 Studios

By TOM MOONEY JOURNAL STAFF WRITER

As fallout from the 38 Studios affair continues to rain on Rhode Island, the finger-pointing and questions as to who knew what and when are springing up like dandelions.

In a May 23 letter to the editor in The Westerly Sun, Harriet Lloyd, executive director of the Rhode Island Statewide Coalition, said it was “disingenuous” for South County legislators, Sen. Dennis Algiere and Rep. Donna Walsh, to voice dismay over the \$75-million loan guarantee that went to Curt Schilling’s company, since they voted for the approving legislation in 2010.

“The source of the 38 Studios disaster,” Lloyd wrote, “lies in 2010 legislation they ... supported that enabled the EDC to spend taxpayer monies of monumental proportions without approval of voters.”

Her remark provoked a rebuttal letter the following day from Algiere, Walsh and three other Westerly and Charles-town lawmakers — Representatives Samuel A. Azzinaro and Brian P. Kennedy, and Sen. Francis T. Maher. Together, the Democrat and Republican lawmakers wrote: “The legislature was never given the opportunity to debate or vote on loaning \$75 million to 38 Studios.”

In light of some of the vitriolic reactions to the company’s now-precarious existence, we thought it timely to look at the accuracy of the legislators’ statement.

Here are the facts:

As The Providence Journal chronicled in a Nov. 7, 2010, story, the 38 Studios deal was cloaked in secrecy from the start.

In March of that year, then-Gov. Donald Carcieri attended a fundraiser for a World War II documentary at Schilling’s home in Medfield, Mass. During that event, the two talked business. Carcieri suggested that the former Red Sox pitcher bring his new start-up video game company to Providence.

During the next several weeks, Schilling and his team met privately with Carcieri’s top aides; Keith Stokes, the newly appointed executive director of the Economic Development Corporation; and House Speaker Gordon D. Fox. Schilling was interested in what funding the EDC could offer him.

What emerged from those discussions was an arrangement that would bring the expanding company and the promise of 450 jobs to Rhode Island in return for the state’s guarantee of \$75 million in loans to the company.

During the 2010 legislative session, with banks still not lending money in the aftermath of the housing collapse, Smith Hill lawmakers already were receptive to an EDC proposal for a \$50-million revolving loan guarantee fund for small businesses.

But what House leaders attached to the state supplemental budget that April for lawmaker consideration — and what eventually came before them as a separate bill — was a \$125-million proposal. It had a name: the Job Creation Guaranty Program.

The added \$75 million in loan guarantees was precisely the amount Schilling had told state leaders in private that he needed in capital, Stokes told The Journal in 2010. The name of the company was not included in the legislation and rank-and-file members in the House or Senate were not told that 38 Studios or any other specific company would be getting a big chunk of the pot, several lawmakers told the newspaper.

In their letter to The Sun last week, Algiere and his colleagues said: “When we voted in favor of the Job Creation Guaranty program, nothing in the budget article or in the act that passed specifically referenced 38

Studios. Our ‘yea’ votes were cast with the understanding that many small businesses around the state would have access to the \$125 million loan program.”

In a telephone interview, Algiere raised a good question: Would the loan program actually have passed unanimously in the Senate and with only one opponent in the House “if we knew \$75 million could be going to one entity? I doubt it. That’s a high-risk, start-up company.”

The legislation’s lone dissenter, Rep. Robert Watson, R-East Greenwich, said in a phone interview that he smelled a “scandal waiting to happen” behind all the secrecy.

“38 Studios was never mentioned on the floor as a subject or even a concept,” Watson said, “but I got up and railed against [the legislation] just as a generic principle because I feared there was something afoot. Programs that start out as \$50 million and balloon to \$125 million in a week’s notice — well, there is something up. Someone was going to get it.”

A videotape of the hearing on the bill supports Watson’s contention.

Our ruling

Algiere and his fellow legislators from Westerly and Charlestown say the legislature was never given the opportunity to debate or vote on loaning \$75 million to 38 Studios.

While the legislature over whelmingly approved the \$125-million loan guarantee fund, it’s clear from news stories at the time and afterward, and from the tape of the debate, that rank-and-file legislators did not know when they voted that \$75 million was meant for 38 Studios, even if some of their leaders did.

Whether they should have been more skeptical of the loan guarantee fund is another question.

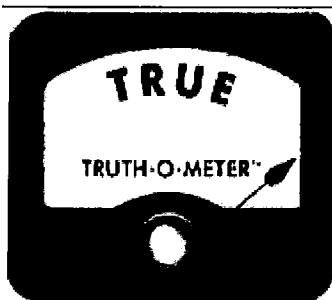
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Publication: The Providence Journal; Date: Jun 2, 2012; Section: Rhode Island; Page: A1

38 STUDIOS

Schilling's gold pledged for rescue

Michael Corso, a film tax-credit broker and friend of House speaker, was at center of \$8.5-million deal

By MIKE STANTON and PAUL GRIMALDI JOURNAL STAFF WRITERS

PROVIDENCE — The Rhode Island film tax-credit broker who helped bring 38 Studios to Providence through his friendship with House Speaker Gordon D. Fox was at the center of 38 Studios' attempts to stay afloat early this year, arranging for \$8.5 million in loans for the cash-starved video-game company.

The loans to the broker, Michael Corso, were secured by \$14.3 million in anticipated film tax credits sought by Curt Schilling's video-game company — and the former Boston Red Sox star's collection of 3,200 gold coins worth anywhere from \$2.5 million to \$5.5 million.

According to Rhode Island financial filings, Corso borrowed the money in January and February from Bank RI, secured by the Rhode Island film tax credits, which had yet to be issued but which had received "initial certification" from the Rhode Island Film & Television Office.

The records also show that Blue Cross & Blue Shield of Rhode Island struck agreements with Corso in January to purchase the tax credits for an unspecified amount, to reduce the health insurer's state tax liability.

Corso, a leading broker of Rhode Island tax credits, stood to make a profit by selling the film credits to Blue Cross once they were issued by the state.

But when 38 Studios' cash crunch led the company to miss a \$1.12-million payment due the state on May 1, things fell apart. The state balked at issuing the tax credits, precipitating a financial meltdown of 38 Studios that has resulted in the layoffs of 400 people, including 286 in Providence, and threatening to leave taxpayers on the hook for repaying the \$75 million in state-backed bonds. With interest, the tab could top \$100 million.

Schilling, in an exclusive interview with The Providence Journal last weekend, accused the state of reneging on a deal to issue the tax credits, and sending 38 Studios into a possible death spiral as it ran out of the bridge cash he says he needed to survive until more permanent private financing came through.

Corso, who says he now stands to lose most of the money he borrowed, told The Journal Friday that he might sue the state, since he and 38 Studios say the company was legally entitled to the tax credits for legitimate production costs in Rhode Island.

"I'm exposed 100 percent, minus the value of the coins," said Corso.

In addition to his role arranging tax credits, Corso played a key behind-the-scenes role in 38 Studios moving from Massachusetts to Rhode Island.

Early in 2010, Corso set up a key meeting at his Providence office between Schilling and Fox, the House speaker.

Shortly after that meeting, the House leadership added \$75 million to a state job-guarantee loan program — the amount of capital that 38 Studios estimated it needed to move to Rhode Island and continue developing a potentially lucrative but risky fantasy role-playing game, dubbed Project Copernicus.

Rank-and-file legislators, some of whom questioned the size of the loan-guarantee program, were not aware that \$75 million of the \$125 million was intended for 38 Studios.

Schilling told The Journal on Sunday that Corso was “a friend of the company.” As a Rhode Islander, Corso helped introduce 38 Studios to people in Rhode Island, and worked as a paid lawyer for the company, in addition to any commissions he stood to earn brokering film tax credits.

Corso, who calls himself a friend of Fox’s for 20 years, also is the speaker’s landlord. Corso runs his tax-credit business from 155 Chestnut St., in downtown Providence’s Jewelry District. The building is also the home of Tool & Dye, a hair salon run by Fox’s romantic partner, Marcus LaFond, and co-owned by LaFond and Fox.

Corso says they pay him “market rent” for the salon, which he declined to specify. He said he and Fox have had no other business dealings. Corso, who has helped write tax-credit legislation, says he stopped donating to Fox’s campaigns and holding political fundraisers for him in 2009, for appearance’s sake.

Fox has declined to talk to The Journal in recent weeks about his role in the 38 Studios deal or his friendship with Corso.

Rhode Island public financial filings reviewed by The Journal Friday show that two entities run by Corso pledged the anticipated film tax credits to Bank RI as collateral for the loan. Corso said he advanced the loan money to 38 Studios.

Corso said he shouldered all of the risk for the initial \$1.5-million loan, in January, which was secured by anticipated tax credits totaling \$2.3 million. For the second loan, \$7 million in February, Corso says he pledged \$12 million in anticipated 2012 tax credits that 38 Studios was seeking.

But he said Bank RI wanted additional collateral. So Schilling gave the bank a personal guaranty on Jan. 27, according to state records. That was further secured, on Feb. 8, by another agreement by Schilling to pledge 3,200 gold coins kept with Coins ’N Things, in Bridgewater, Mass.

The coins were posted as collateral, according to records filed with the Massachusetts Secretary of State’s office, just days after 38 Studios released its first video game, “Kingdoms of Amalur: Reckoning.”

The 1-ounce coins include 500 South African Krugerrands, 200 Canadian Maple Leafs and 900 American Eagles.

Those coins were worth about \$5.5 million, based on a trading value on that date of \$1,721.85 per ounce, according to Bloomberg News.

Corso says he believes they were valued at \$2.5 million.

David M. Gilden, the lawyer at Partridge Snow & Hahn in Providence who represents the EDC, was involved in discussions with 38 Studios about its request for the state to guarantee that the tax credits would be issued if the video-game company made its missed payment. Corso says Gilden also represented Bank Rhode Island in the loans to Corso.

The Massachusetts state filings indicate only that Theodore B. Howell, a lawyer with Partridge Snow & Hahn, is the contact for the transaction that Schilling conducted using his gold as the loan collateral.

Gilden, the law firm’s managing partner, said Bank Rhode Island, one of the law firm’s ongoing clients, asked the firm in January to represent the bank as it made a loan to Kingston Capital. Gilden said he knew that was Corso’s entity and that a commitment letter from the bank to Kingston Capital noted that Kingston was borrowing funds to purchase tax credits from 38 Studios.

Gilden said he knew in January that Corso intended to loan the money he would get from the bank to 38 Studios.

Because Gilden represents the EDC, Gilden said his firm did a “conflicts check” and determined the firm could represent the bank because the loan was going to Kingston Capital, yet his partner, Howell, would represent the bank in the transaction. Gilden continued to receive emails about the transaction, which he says he purposely didn’t read because of an “ethical wall” the firm put up, but on the last day of the transaction, when Howell was away from the office, he asked Gilden to get a document signed.

Gilden said he had already learned — in November or December — that 38 Studios might apply for state film tax credits and would be seeking to obtain additional financing. In early December, Gilden says he told Governor Chafee's then chief of staff, Patrick A. Rogers, that 38 Studios was considering seeking the credits. Gilden said he had no concerns at the time that 38 Studios was in trouble financially.

"At that point, we had no reason to think they would not get additional funding," he said.

As the loan process dragged on, 38 Studios missed a payment to the Rhode Island Economic Development Corporation tied to the \$75-million loan guarantee that drew the company to Rhode Island from Massachusetts.

When 38 Studios missed that May 1 payment of \$1.12 million, the state balked at issuing the credits that Schilling and Corso were using to back the bank loan.

Schilling says the state reneged on a deal to allow 38 Studios to defer the \$1.12-million payment. Schilling said he has committed \$50 million of his baseball fortune to the venture — \$38 million in cash plus \$12 million in personal loan guarantees — and is "tapped out."

So he struck on a plan to borrow the \$1.12 million, pay the state, and then become eligible for the tax credits.

But Blue Cross, which had originally agreed to purchase the tax credits from Corso once approved, balked at a bridge loan, Corso said.

A Blue Cross spokeswoman said in May that an unidentified broker approached the insurer in the week before 38 Studios paid the \$1.12 million to the state, offering to sell Blue Cross tax credits from 38 Studios. She said that Blue Cross declined -- but did not mention the insurer's January agreements with Corso.

So Corso says he turned to a company he knows from the tax-credit business, Row 1 Productions LLC in Beverly Hills, Calif., to pay that \$1.12 million.

Rhode Island financial documents show 38 Studios put up another \$6.5 million in anticipated 2011 state film tax credits, as collateral for Row 1.

On May 18, 38 Studios wired \$1,025,000 to the EDC and presented a \$100,000 check to the state, curing the video-game maker's default on its loan-guarantee agreement with the EDC. But citing other objections, the state has still balked at issuing the tax credits. Governor Chafee opposes the move, saying he doesn't want to "throw good money after bad."

The Providence Journal was unable Friday to reach Row 1's principal.

Corso says he has no financial stake in Row1. He says he didn't loan any more money because he had already taken on a great deal of risk in the \$8.5 million in loans earlier this year.

"I couldn't take on additional risk," he said. pgrimald@providencejournal.com

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Michael Corso, a broker in film tax credits, tried to put together a complicated deal to finance Curt Schilling's 38 Studios.

THE PROVIDENCE JOURNAL / GRETCHEN ERTL

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FILE- In this May 21, 2012, file photo, former Boston Red Sox pitcher Curt Schilling, center, is followed by members of the media as he departs the Rhode Island Economic Development Corporation headquarters in Providence, R.I. Schilling has dabbled in politics, World War II history and raised millions for Lou Gehrig's disease, but it's a gamble on his video game company 38 studios that is in danger of failing and possibly leaving Rhode Island taxpayers with the tab on a \$75 million loan guarantee that lured the firm from Massachusetts in 2010. (AP Photo/Steven Senne, File)

38 Studios bankruptcy: 'It's not all bad', says Chafee

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Posted: 6/7/2012 6:21:56 PM

Updated: 6/7/2012 6:44:30 PM

Governor Lincoln Chafee is hoping that the bankruptcy filing by 38 Studios, former Red Sox pitcher Curt Schilling's video game company, will help protect public assets.

"In some ways, it's not all bad," Chafee told reporters at a hastily called news conference Thursday afternoon in the Governor's State Room of the State House, hours after 38 Studios filed for bankruptcy protection in Delaware, where the video game company is incorporated.

"Now, there's some protection that the courts will give to the assets and the like."

Chafee refused to discuss the criminal investigations launched by the Rhode Island State Police, the FBI and the office of the United States Attorney for Rhode Island.

The three agencies, "have opened an investigation into 38 Studios, the money that went into the business and the money that went out of there," said Colonel Steven O'Donnell, Rhode Island Director of Public Safety and Superintendent of the State Police.

"We've been monitoring for the last several weeks, and we came to a point in time where we thought it was incumbent upon our mutual resources to investigate what is happening," Colonel O'Donnell said. Jonathan Savage, an outside attorney hired by the quasi-public Rhode Island Economic Development Corporation says he's spoken with company officials and others, and believes there are "tens of millions of dollars" in assets available to creditors, including the state and EDC, which had disbursed more than \$49 million of a \$75 million loan guarantee to 38 Studios. The loan guarantee had been issued to entice the company to move to Rhode Island from Massachusetts in 2010.

Chafee said he learned of the bankruptcy filing by 38 Studios about mid-day Thursday, about when the public learned of it, although Savage said there had been talks for some time about filing for bankruptcy protection.

"This action comes after several weeks when the company has reviewed, considered and received the recommendations and advice with respect to potential avenues for relief that are currently available. After ongoing negotiations with the State of Rhode Island and potential investors and other interested parties, the Company has been unable to find a solution to the current stalemate," said Schilling's spokesperson in an email statement on Thursday.

State Director of Revenue Rosemary Booth Gallogly said she has been in touch with national rating agencies to apprise them of the 38 Studios filing, and to protect the state's bond rating.

"I've had conversations with them, that the state fully understands the moral obligation nature of this, and that should this not be fulfilled, there could be implications on the state's credit rating. The state has a track record of supporting those moral obligations," Gallogly said.

Steve Klamkin | WPRO News

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BREAKING NEWS

R.I. Gov. Chafee: 38 studios bankruptcy 'a very, very bad situation'

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June 7, 2012 4:41 pm

By News staff

PROVIDENCE, R.I. -- Governor Chafee said Thursday he was unsurprised by the bankruptcy filing Thursday of Curt Schilling's videogame company, 38 Studios.

He said the industry revolved not around tens of millions of dollars, but hundreds of millions, which had made him question the company's status more deeply.

"In some ways, it's not all bad," Chafee said about the bankruptcy at first, saying that the bankruptcy process gives the state, which backed a \$75-million loan to the company, some protection. But he said a

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few minutes later that he was trying to help taxpayers make "the best of a very, very bad situation."

SI

Chafee said he learned about the filing Thursday, with the rest of the world.

More news on 38 Studios


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7:54 AM on 6/8/2012 [Report Abuse](#)
The voters in this state are getting what they deserve. They're too stupid and afraid to make any significant changes. We're doomed.



icare09 Score: 0
7:53 AM on 6/8/2012 [Report Abuse](#)
Oh ,by the way,Carcieri was an astute businessman.
Romney?Romney?Anyone?Anyone?



fair is fair Score: 0
7:52 AM on 6/8/2012 [Report Abuse](#)
Why is this situation
Gordon and all the
there? Take a page

**Help send children-in-need to summer care**
The Providence Journal

M

M

and just refuse to fullfill legal obligations just like you are trying to do with pensions.
Tell everyone that we cant afford these contracts anymore they are unsustainable and just refuse to back the money owed!!!

Linc is going around to municipalities and advocating legislation to void LEGAL CONTRACTS! Why isnt he doing that with 38 studios? All you union haters out there should take notice of that!



meusa

Score: 0

7:48 AM on 6/8/2012

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Ok -- the politicians "work" for us - they did not do their job -- the failed miserably -- we remove them from office -- just like an employer would remove a person from their job for failing (numerous times) at the same thing!



4anewRI

Score: 4

7:47 AM on 6/8/2012

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PEOPLE, BOYCOTT TAZZA RESTAURANT IN DOWNTOWN PROVIDENCE IF YOU CARE AT ALL ABOUT RHODE ISLAND. THIS IS OWNED AND IS THE FRONT FOR MICHAEL CORSO WHO MADE HIMSELF RICH OFF THIS SCHEME!

[1 reply](#)



icare09

Score: -1

7:47 AM on 6/8/2012

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For the misinformed and uninformed,Governor Chafee's hands are clean on this Carcieri debacle;as the are also clean on the Bush tax cuts,and on the Bush/Cheney/Halliburton wars.

Not bad for an alleged duffus.

[1 reply](#)

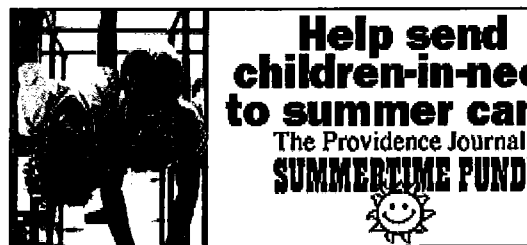


EE53

Score: 1

7:53 AM on 6/8/2012

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R.I. film tax-credit broker at center of 38 Studios bid to stay afloat

Miss Pennsylvania claims Miss USA pageant, by Miss RI, was rigged

Schilling's 38 Studios declares bankruptcy; law enforcement investigating

Hepburn-loving Miss R.I., now Miss USA, heading for breakfast at Tiffany's

Flanders out, new receiver named for Central

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Miss Rhode Island makes first cut at Miss US pageant

His ineptitude and lack of foresight more than makes up for everything else.

His hands might be "clean" re Schilling, but his head is empty.

Beverly Hills firm loaned Schilling money to RI; 38 Studios put up tax credits it had not received as collateral



RIopine

Score: 1

7:30 AM on 6/8/2012

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Here's the pity in all this: When this "project" was first pitched in RI, I thought: "Two years it will go under."

Why?

Because video business is profoundly difficult and competitive, because Massachusetts had already declined, because RI asked nothing in return, because I felt the state was being dazzled by an athletic star, because I know RI's Statehouse history of making unwise decisions on behalf of taxpayers.

The problem: I have no clout in RI, no inside ties, no money backing, no connections, no pol pal, so who would listen to someone who cannot do them a favor?

Still, I spoke up against it at the time and said at the very least the state should demand that 50 percent of any new hires come from RI unemployment ranks.

It's disgusting and infuriating that this needless debacle has come to be because of stupidity and who knows what else among the state's leadership crew.

Perhaps it's time that elected officials come from the likes of me, no pull, no money, but plenty of brainpower and a lifetime of commonsense.



HadEnoughYet

Score: 1

7:07 AM on 6/8/2012

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No way the legislature will vote themselves term limits. It's up to you to vote them out.

RI already has a full-fledged casino. It's called

the State House and it always stacks the deck
for itself and against anything good for the
people, but given the brain matter, it's no
surprise.

My advice: Leave RI. I did in 2010.

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Politics as Usual: 38 Studios debacle has been Chafee's finest hour (OPINION)

June 13, 2012

BY JIM BARON

Lincoln Chafee has had some stumbles in his first term as governor, but his performance handling the 38 Studios debacle has been his finest hour. To put it in video game terms, he picked up the sword and shield and went out to tame the fire-breathing monster before it could do further harm to the citizenry. If he didn't exactly save the day, he at least minimized the damage.

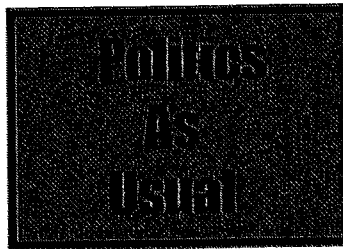
But the Chafee haters – for instance, some of the folks on talk radio and in the comments section of various publications, blogs and websites – steadfastly refuse to give him any credit and, in fact, try to point the finger of blame at him for this trainwreck. Shame on them, particularly the ones who know better but are trying to score cheap political points. Many of these same people idolized former Gov. Donald Carcieri, who really deserves a heaping helping of the obloquy for this mess.

These folks have to grudgingly admit that Chafee was vehemently opposed to this deal as a candidate, so they huff: "Well, he was chairman of the board at the Economic Development Corporation (EDC) for 17 months, why didn't he do anything, where was the oversight?" They are joined in that criticism by General Treasurer Gina Raimondo, who has demonstrated recently that she has a couple of sharp political elbows and no qualms about ramming one right into the governor's gut when the opportunity presents itself. She is clearly looking to elbow Chafee right out of the governorship in 2014. But that criticism misses the mark.

It is a good criticism, but it should be applied to former EDC Director Keith Stokes. The EDC chairman has a big-picture job of setting the direction and mission of the agency. The day-to-day operations, like checking in on 38 Studios and making sure everything was as it should have been, was Stokes' job. If 38 Studios was hemorrhaging money to the point where it was going to run out and lay off all its employees after blowing off a payment deadline to the state, it was the staff's job to be on top of that and sound the alarm. What did Stokes think was the point of those monthly EDC board meetings? But that alarm never sounded until way after it was too late.

The job of the EDC chairman is to fire the director when it becomes clear that the job he has been doing is woefully inadequate, such as when a \$75 million deal crumbles through his fingers. That is exactly what Chafee did. Chafee called it a "mutual agreement" and Stokes said he was looking forward to spending more time with his family (He really did! Swear to God!). But Chafee canned him.

Demanding resignations to exorcise the EDC board of any members who voted in favor of the deal back in 2010 might be a bit of overkill, but Chafee says he wants a "fresh start" and being right up until now has probably earned him that call.



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The governor did other things right as well. He moved to limit (to \$10 million) the amount any one company could get from the EDC loan program Schilling used as his personal piggybank to the tune of \$75 million, and now he has a bill before the General Assembly to not allow companies to use money they got from state loans or loan guarantees to qualify for a motion picture tax credit, a practice he correctly characterized as "double dipping."

If there is one person who deserves the lion's share of blame for this fiasco, however, it isn't the governor or anyone at EDC. It is onetime right handed red Sox hurler Curt Schilling.

Schilling is not a gifted artist, he is not a master at creating cool computer code, he's not even a business numbers guy. Schilling is the celebrity jock/CEO; his sole function at 38 Studios was to schmooze big-time investors and attract capital to his company. He didn't get it done. Even before he found a bunch of suckers in Carcieri and the General Assembly leaders, Schilling was striking out all over the place trying to get people to finance his joystick fantasy. We now have reports that, long after his boat was clearly taking on water, he spurned investors who wanted an equity stake in the company. This was his ship, and now he is going down with it, sucking about 100 million Rhode Island taxpayer dollars down to the bottom with him.

Now he, too, is lashing out at Chafee and trying to blame the governor for his shortcomings.

Apparently, Schilling saw Chafee's function as keeping his mouth shut about the increasingly obvious troubles at 38 Studios and to keep pumping your money and mine into his quixotic enterprise. Given the extent to which he wanted the state to be his sugar daddy, he should have named his game Kingdoms of Rhode Island.

Schilling's behavior and statements are clearly those of the hopeless dreamer: if this one next step is taken, everything will just fall into place. If only the state had come up with the \$8 million in motion picture tax credits, oh, the outside money would just come rolling in. Nonsense! Another \$8 million in movie tax credits, if his company actually qualified for them and got it, would have kept the lights on for another two months while his massive honking multi-player game was a year or more from completion. He thought he could attract investors without letting them know the company was running out of money fast. That he couldn't do that wasn't the governor's fault.

Chafee was right to turn off the spigot when he did, and when he did it, he had a responsibility to explain what was going on to 38 Studios' biggest investors, who were, of course, you and me and all the other Rhode Island taxpayers.

As I tweeted last week, Schilling loaded the bases then walked the winning run in; now he is trying to blame the umpire (picture Chafee wearing an iron mask, standing behind the batter and catcher with a chest protector under his jacket).

I don't want to paint Schilling as evil, he is just incompetent as an entrepreneur and he chose an industry that, as Chafee likes to repeat, "punishes people who don't know what they are doing."

Schilling put together a top-flight team of people who are immensely respected in the gamer world; they created a game that sold more than a million copies in three months. It is just that, despite that success, he never had the money to realize his dream and could never get enough people to believe in him and bankroll that dream.

It's a shame, really. As the song says: "If mercy's in business, I wish it for you; More than just ashes when your dream comes true."

Jim Baron covers politics and the statehouse in Rhode Island for the Rhode Island Media Group and his views are his own. He can be reached at jbaron@pawtuckettimes.com.

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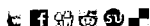
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INVESTIGATION: Secret Documents Reveal True Risks of 38 Studios

Thursday, June 14, 2012

Stephen Beale, GoLocalProv News Contributor



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A confidential investment memo obtained by GoLocalProv reveals in painstaking and dramatic detail the true risks of the 38 Studios venture back in 2009—in marked contrast with the highly optimistic picture that consultants and staff presented to board members of the state Economic Development Corporation one year later.

The document, technically known as a Private Placement Memo, was issued on May 1, 2009 by 38 Studios in a bid to secure \$25 million in investment funds. The memo pulls no punches in describing the investment opportunity as "highly speculative and inherently risky." It warns that membership interests in the company should be purchased only by those "who can afford to lose their entire investment."

The longest section of the 37-page memo is devoted to spelling out 16 categories of risk—the unique unpredictability of the video game market, the challenges of launching in overseas markets, and the inherent risk in investing in a brand new company where the success of the venture rested on a few key individuals, to name a few.

"There is no guarantee of the economic success of any video game since the revenue derived from the production and distribution of a video game depends primarily upon the video game's acceptance, which cannot be predicted," the memo concludes.

(Click here to view a slideshow of excerpts from the memo.)

The memo is not mentioned in any of the meeting minutes or listed in any of the public documents the EDC has released regarding the deal with 38 Studios, the video game company founded by Red Sox star pitcher Curt Schilling.

Would memo have torpedoed deal?

"The worst part of this deal is that all of the risk—all of the risk—went to the taxpayer. If this document had come out at the time the deal ... was being made there would have been an uproar," said Ed Mazze, business professor at the University of Rhode Island.

In contrast to that memo, the three public slideshows presented to the EDC board of directors in the summer of 2010 devote a total of just two slides out of 38 total to discussing the risks, which had been whittled down to four brief bullet points. (Click here and here to view two of the slideshows.)



And, in the space of two meetings prior to the vote approving the \$75 million loan guarantee, the negative risks involved were discussed just twice.

Instead, the presentations from three consultants and EDC staff dwelled on the lucrative opportunities in a \$72 billion global industry, which they predicted would nearly double by 2013. One after another slides flashed charts and other graphs showing the rapid growth in video game use among youth, U.S. subscriptions to massively multiplayer online games, and software sales as compared with hardware. One slideshow was devoted entirely to the hypothetical scenario of creating a cluster

of video game companies in Rhode Island, with 38 Studios as an anchor.

'Due diligence'?

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In comparing the investment memo with the public presentations at the EDC meetings, it is clear that EDC board members—at least publicly—not only were not briefed on the full extent of the risks involved, but also that there were a number of additional risks that were not disclosed during the public board meetings.

"To me if you had a 30-slide show, perhaps 10 of them should have been on risk," said state Sen. Ed O'Neill, an independent from Lincoln and a retired executive with Texas Instruments.

During his 35-year tenure with the company, O'Neill recalled his involvement in a number of complicated acquisitions, which he said required extensive due diligence. "We didn't just peel the surface on those. We peeled 20 layers down to the core," he said.

The confidential memo raised three questions for businessman Ken Block, the founder of the Moderate Party and a critic of the deal: Did the EDC staff even ask for the such documents from 38 Studios? Did 38 Studios provide them? And, if so, were those documents ever shared with EDC board members?

"The document you have contains a number of 'boilerplate' statements of risk that are standard for any such offering, the question is whether the EDC sought or prepared a comparable analysis of its proposed investment," said state Rep. Laurence Ehrhardt, R-North Kingstown.

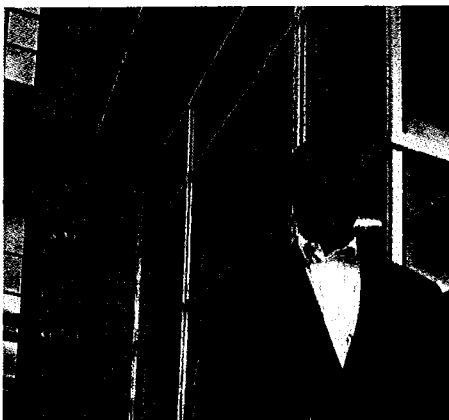
Such questions went unanswered by two spokeswomen for the EDC yesterday.

"I certainly don't see anything referred to that in the minutes," said Ehrhardt, who was a treasurer for a Fortune 500 company before his retirement. Consultant reports on the video game industry, he added, are "not the same thing as a detailed investigation of the company itself."

Board members in the dark

In the summer of 2010, the membership of the EDC board, with few exceptions was comprised of heavy-hitting local business leaders—a hospital CEO, a Verizon regional president, the chairman of a top toy-maker and a senior executive at a construction company.

The risks listed in the confidential memo are common to the business and investment world, Mazze and Ehrhardt said. As experienced business people, EDC board members would have understood the general risks involved in the 38 Studios venture, Mazze said, but they "would not have understood how serious some of these risks are."



The fact that such risks were minimized during the consultant presentations, Mazze added, made it that much easier for board members to ignore them. "I think they were a load of nonsense," Mazze said, referring to the presentations, which were delivered by Wells Fargo, Strategy Analytics, and EDC staff. Mazze credited the prodding and "moral suasion" of the Governor and then-EDC Executive Director Keith Stokes with getting the board to approve the loan guarantee.

The type of investment the memo was seeking was riskier than the "secured debt" involved in the EDC deal, Ehrhardt added.

"However, if the collateral for the debt was the work product (the game being developed) all the warnings of risk would certainly apply to the potential value of the collateral (particularly in the event of failure) and argue strongly against assigning much value to the collateral thus rendering the statements of various people that the

loan was safe because 'it was secured' absolutely unsupportable and meaningless," he said.

Qualifications of board at issue too

The real issue, Mazze said, is the ability of board members to understand the risks involved and interpret the information presented to them. Having a member with banking experience would have been useful. A board member with investment experience—someone like state Treasurer Gina Raimondo, also would have been an asset to the board, O'Neill said.

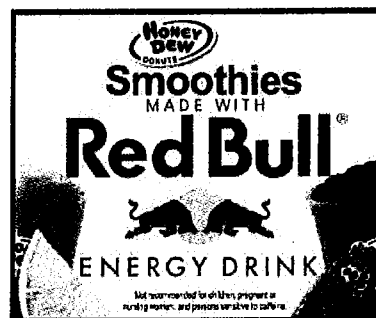
O'Neill also questioned the qualification of the EDC staff, such as Stokes, who has a background in tourism, O'Neill noted. "Does he have the wherewithal to make an assessment on an investment like that? Probably not," O'Neill said. "You need to have highly skilled, highly qualified people making these decisions."

Efforts were made to reach every single member serving on the board in summer 2010. A handful were unavailable because they were traveling, but most simply did not respond to calls or e-mails requesting comments. Former board member Lynn Singleton, the head of PPAC, declined to comment and former board member Shivan Subramaniam, the CEO of FM Global, responded to a series of specific questions with this statement:

"Based on the information provided at the time, I voted along with the majority of the RIEDC board of directors in favor of the state supporting the project. Long term, the future of the Rhode Island economy must be built, in part, on developing a cluster of knowledge-based businesses and creating a qualified and well compensated local workforce that such enterprises demand."

"The securities offered hereby are SPECULATIVE and involve a HIGH DEGREE OF RISK. The Class B Units should be purchased only by persons who can afford to lose their entire investment."

—38 Studios confidential memo to investors
May 1, 2009



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Fix This!

Messages left at the 38 Studios offices in Providence and Baltimore also were not returned.

Unsettling questions linger

Now, a week after 38 Studios declared bankruptcy, unanswered questions continue to pile up.

In 2010, EDC board members were assured that a third party would be monitoring 38 Studios and its progress. Two years later, O'Neill wonders why the bankruptcy came as such a surprise. "They should have known when the train was wobbling on the tracks," O'Neill said. "They didn't know until it was in the ditch."

"The whole process on this from beginning to end smells," Mazze said.

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"There is no guarantee of the economic success of any video game since the revenue derived from the production and distribution of a video game depends primarily upon the video game's acceptance, which cannot be predicted."

—38 Studios confidential memo to investors
May 1, 2009

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Jeffrey Brown

7:45am on Thursday, June 14, 2012

"Secret Documents" is a complete misnomer. All Private Placement Memorandums contain this sort of language, most every registered security for that matter.

Most shocking in all of this is Governor Chafee being asleep at the wheel once he became Governor and for the 17 months following while chairman of the Board of EDC.

pearl fanch

8:58am on Thursday, June 14, 2012

Did you actually expect ANYONE from EDC to read the documents, before falling head over heels for this?

Pockets were lined baby, that's all that matters in RI.

Caroline Evans

9:23am on Thursday, June 14, 2012

What is crazy is that it takes no confidential document to make these points.

The risks of that kind of business proposal are about as commonly known to businesspeople as is the term "spreadsheet".

It is like claiming you didn't know about gravity after you tipped over a cup of coffee and acting all amazed the coffee didn't stay in the cup.

John McGrath

9:46am on Thursday, June 14, 2012

The presenters need to be indicted for fraud.

Jack Cottone

10:14am on Thursday, June 14, 2012

This article discusses a Private Placement Memo issued on May 1, 2009 by 38 Studios looking for 25 million in private investment funds. In another story, link below, golocalprov outlined a Bridge Loan dated July 17, 2009 by 38 Bridge Partners, a group of private investors headed by Michael Sweeney (Duffy and Sweeney). This group of five or six investors certainly knew they were investing in a high risk venture. Sweeney says the loan was "7 digits".

See "Providence Investors Gave Schilling 7-Figure Loan in 2009, <http://www.golocalprov.com/news/38-studios-loan/>

I doubt the collateral was merely the "work product (the game)". You would not put down a high risk bet on simply work product. Elsewhere we learn from the EDC's own Keith Stokes the collateral being eyed for any high tech investment is intellectual property. The EDC was specifically looking to invest in companies which had little to offer other than their patent rights. The collateral was likely the patent assignment, previously owned by Douglas MacCrae, a member of the board at 38 Studios, which was procured on 6/1/2009. The dates fit in a nice pattern, May, June, July, 2009. I'm getting this all from local reporting and the bankruptcy documents posted at ProJo. Anyone can do it.

I have written about the patent elsewhere. At the risk of being boring, I will repost the chain here.

<http://www.golocalprov.com/news/2011-keith-stokes/>

"Stokes worked with the General Assembly to pass the Job Creation Guaranty Program which authorizes RIEDC "to guarantee up \$125 million in private loans to innovative, technology-based companies with primarily intellectual-property assets to help them create permanent, high-paying, full-time jobs." The program most notably allowed RIEDC to guarantee former Red Sox pitcher Curt Schilling's, 38 Studios, an entertainment and IP creation company, \$75 million (out of the \$125 million that is available in government-backed loans).

Note in the above story that the Job Creation Guaranty Program was looking for technology companies with primarily intellectual property assets. Why?

My forensic audit would look something like this. I'm seeing a curious "patent assignment" on 6/1/2009 in the bankruptcy papers. The patent belongs or belonged at one time to Douglas MacCrae, who is on the board of directors of 38 Studios.

July 2009: A mysterious entity called 38 Bridge Partners (interview with Michael Sweeney of Duffy and Sweeney) made a "7-digit" loan to 38. What was the collateral? These well taught lawyers not only spin tax credits but they also spin other intangible wealth like intellectual property. That's the collateral.

Who was on the 38 Studios board of directors? It's gone from their website, but here's a "cache" of the board of directors with a description of each of them. Interesting on there is the super wealthy Douglas MacCrae. This guy retired but then became buddies with Schilling over their love of adolescent video games. <http://blogs.law.harvard.edu/lamont/2012/05/18/38-studios-board-of-directors/>

If you look at the unsecured creditors in the bankruptcy, you will see a patent assignment on 6/1/09. The patent was previously owned by Doug MacCrae and Thomsas Westberg. These ultra rich people buy patents just to spin them and use them as collateral for loans. Whoever ends up with the collateral in the end is the winner. That won't be Rhode Island. That will be the last bank to own it: JP Morgan. I believe the patent was assigned to JP Morgan bank as collateral on 3/17/2010 (date of execution).

<http://bks9.books.google.as/patents/US7814511>

<http://assignments.uspto.gov/assignments/q?db=pat&pat=7814511>

Jack Cottone

10:19am on Thursday, June 14, 2012

If anyone wants to back me up on any of this, be my guest. Just search the bankruptcy documents for people's names. You will find them. You will see that 38 owes Corso's Preservation Credit Fund 11 and a half million dollars. There are patent assignments and other documents dating back to 2008 and 2009. I hope the auditors are going back this far. Please, hope to God.

John McGrath

10:59am on Thursday, June 14, 2012

Could it be that Rhode Island is a criminal conspiracy under the RICO act?

John McGrath

11:01am on Thursday, June 14, 2012

This site has not yet fixed its clock. The time recorded on comments is "where the clock used to be" in winter.

Todd B

11:36am on Thursday, June 14, 2012

@Jeffrey Brown: I'm not a big fan of Chafee politics but given that 38 Studios managed to rack up \$150M in debt and had little revenue, I doubt it would have made a difference if was told about the situation weeks ago, months ago or last year. The 38 Studios ship was going down and going down fast. Chafee warned about it before it happened. Blaming him is like blaming the guy on the Titanic the yelled "Iceberg, straight ahead" instead of blaming the ship's designer, captain, etc.

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FROM THE DESK OF
GORDON D. FOX

October 11, 2012

Dear Neighbor,

As I walk door-to-door throughout House District 4 in my re-election campaign, it has prompted me to reflect on my life and on my political career. It has been an incredible journey, being one of six children of two very hard-working parents of Irish and Cape Verdean heritage, to where I am today. It has been a great honor and privilege to serve as the Representative from the neighborhood where I have always lived. As the 222nd Speaker of the House of Representatives, I am so honored to be the first person of African-American descent and the first openly gay man to ever serve in this position.

I could see the State House from where I once lived as a child in University Heights and I remember dreaming that someday I would like to serve there. That dream would not be possible without my parents and my teachers in the Providence public schools, who convinced me to work hard and take my studies seriously. My father insisted that I take the entrance exam to Classical High School, and it turned out to be one of the best choices I ever made. Classical provided me with a great academic foundation and instilled in me a passion for learning that still burns inside me. It was overwhelming to be honored earlier this year by the Classical Alumni Association with the Distinguished Alumni Award.

My father tragically passed away in my first year at Providence College, turning my life upside down. I was forced to drop out of school to help my family and I went to work in a bank, while also scooping ice cream at Carvel and selling vacuum cleaners. But I always remembered what he preached to me about the importance of education. I saw an advertisement for Rhode Island College in the newspaper and I decided I could afford to take classes while still working. I rode the RIPTA bus to RIC and got absorbed in my studies, earning a degree in 1985 while majoring in both political science and history. I am tremendously grateful to the RIC professors who inspired me to work hard because that led to a full scholarship to Northeastern University School of Law and my career as an attorney. As I said to the students when I was RIC's commencement speaker a few years ago, Rhode Island College truly saved my life. A quality and affordable public education was my life preserver and I will never, ever forget that.

In speaking with many of you on the campaign trail, I know the challenges that people are facing and I have many of the same struggles. My partner Marcus and I take care of my 90-year-old mother who lives with us. We work hard, do the best we can, and try to make a difference. I have great love and affinity for my neighbors of Mount Hope, Summit and Blackstone who I am proud to represent, and I always keep your best interests at the top of my agenda on a daily basis.

I want to take a moment and share with you two of my achievements in serving you first as a rank-and-file Representative, next as chairman of the House Finance Committee, next as the House Majority Leader for seven years and then as Speaker of the House for the past three years.

My proudest two accomplishments have been the passage of the school funding formula and comprehensive pension reform. There is nothing more essential in life than a good education. The enactment of a fair and equitable funding formula for public schools was critical in leading to enhanced educational and career opportunities. For 15 years, our state did not have a funding formula in place. It was unacceptable. When I took over as Speaker in 2010, I made it my top priority to enact this formula and I

made it happen. In the two years since the formula has been in place, the General Assembly has added \$50 million in funding for public schools throughout the state, including an additional \$18 million in Providence alone. This is an essential investment in our children's future, and I will continue to be your strongest advocate for education and teacher training. I strongly supported the state's effort to win the federal Race to the Top grant of \$75 million and will assist in all efforts to continue to improve our educational system.

I proudly called a special session of the House and introduced and lobbied for pension reform legislation that was enacted in November 2011 -- earning praise as a *national model* from such publications as Time Magazine and the New York Times. We did this to not only save significant money for you, the taxpayer -- lowering the state and local contribution by \$274 million in the first year alone -- but we also made the system more financially secure for retirees and state employees well into the future. By reducing our state's unfunded liability by \$3 billion, we took the strain off of our state budget and it enabled us to make the proper investments that are needed in such critical areas as education, health care, economic development and transportation.

Beyond these two historic achievements, I also sponsored the law which banned smoking in restaurants and nearly all public places in our state. Some of my other initiatives have led to successful programs in affordable housing and historic redevelopment. My bill to extend health care coverage for mental illness in Rhode Island was years ahead of the federal law. And, for the past two years, I have worked extremely closely with my friend, Mayor Angel Taveras, to ensure that Providence received ample state support to survive its Category 5 fiscal hurricane and avoided bankruptcy.

Moving forward, I will continue my decades-long fight to support and defend a woman's right to choose. I will do everything in my power to make sure that any legislation that doesn't respect women's reproductive choices is never brought before the House.

Should I have your continued support, I will also bring marriage equality legislation to a vote early in the next House session. It is time, and I feel the momentum building. The civil unions' bill we passed in 2011 was a backstop to begin the process of granting the full marriage rights that same-sex couples deserve. But, now, with your support, we will make history yet again by passing marriage equality.

I will also continue to work on the very critical issue of economic development. I know that creating good jobs is the central issue of our time, and I wholeheartedly agree. I know the importance of a good job. I remember when my father was out of work, our whole family would suffer. As your Representative, I will always focus on providing the opportunities for families to put food on the table, to have a warm place to sleep at night, and to obtain a good education.

Growing the economy is crucial to moving our neighborhoods forward. In collaboration with business leaders throughout the state, the General Assembly enacted income tax reform which lowered the highest tax bracket from 9.9 percent to 5.99 percent to make the state more competitive in attracting businesses. We created and funded the I-195 Commission to attract high-tech companies to relocate to Providence's burgeoning Knowledge District. We passed several pieces of legislation to attract companies to Rhode Island.

One such bill we enacted in 2010 allowed the Rhode Island Economic Development Corporation to back \$125 million in loans sought by businesses in the knowledge and technology sectors. When I took over as Speaker earlier that year, we were in the depths of a recession. We lost 32,000 jobs in two years and our unemployment rate skyrocketed from 6.2% to 11.9% in that time span. Economic experts were encouraging us to take risks and expand into such areas as the "knowledge economy." At the time, it certainly seemed like a worthy program that then-Governor Carcieri and the EDC were requesting.

As we now know, EDC and its chairman, Governor Carcieri, granted \$75 million of those loan guarantees to a video-game company called 38 Studios. Months prior to the approval, I was invited by a friend who

was a company board member to meet with him, owner Curt Schilling and the head of the EDC to discuss their potential interest in relocating to Rhode Island. I was aware of this interest when the Assembly created the job incentive program, but the EDC made clear that there was a substantial vetting process in place to ensure that any company who applied for these funds were a viable and worthy investment. Essentially, the General Assembly gave the EDC the tools to build the job-incentive program, but it was the EDC's role to review the application and scrutinize the company's financial viability. None of us in the General Assembly was involved in any way in that review and loan-awarding process.


Former Governor Carcieri admitted that the General Assembly did its job in creating capital to stimulate the economy, when interviewed by Tim White on Channel 12 Newsmakers last month, said: "I don't blame the General Assembly. No. Not at all. They passed the loan guarantee program. Their job is to pass laws."

I feel terrible about the 300 jobs that were lost at 38 Studios and the risk to the taxpayers which resulted from the closure of the company. But we learned many lessons from the failure of the company, including the need to overhaul the EDC and tackle the red-tape and bureaucracy facing business-owners in Rhode Island. I will make sure that job creation continues to be a major focus of the General Assembly in the next session.

It is disappointing that there are people who want to use the 38 Studios issue as a political weapon as opposed to learning from our mistakes and focusing on how to move our state's economy forward. Partisan politics doesn't create jobs. Negative ads don't cut red tape for small business owners. Anonymous attacks don't increase investments in college affordability and adult education. But I promise you that I will. I will work every day for you and your neighbors to grow this economy, to create jobs and to do whatever it takes to put Rhode Island back on top again.

It is with a great deal of respect and humility that I once again ask for your vote in the General Election on November 6. Should you wish to discuss any of these issues, please feel free to call me at 331-9090 or email me at Gordon@GordonFox.com.

Sincerely,



Gordon D. Fox